CARROLLTON
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Where Connections Happen

INVESTMENT POLICY

THE FOUNDATION

FOR

A TREASURY MANAGEMENT PROGRAM

Revised: November 2017

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INVESTMENT POLICY

It is the policy of the City of Carrollton to actively invest funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the City and conforming to all state and local statues governing the investment of public funds.

I. Scope

This policy applies to all financial assets and investment activities of all current funds of the City of Carrollton, Texas and any new funds created in the future, unless specifically excluded hereafter, will be administered in accordance with the objectives and restrictions set forth in this investment policy. These funds are accounted for in the City's Comprehensive Annual Financial Report and are divided as follows:

A. Funds Included:

1) Governmental Funds
2) Proprietary Funds

B. Funds Excluded: This policy shall not govern funds which are managed under separate investment programs. Such funds currently include:

1) funds established by the City for deferred employee compensation plans
2) City's participation in the Texas Municipal Retirement System
3) defeased bonds held in trust escrow accounts

C. Pooling of Funds: Except for cash in certain restricted and special funds, the City of Carrollton will combine cash balances from all funds to maximize investment earnings. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles. In addition, all the bond funds proceeds (to include capital projects, debt service and reserve funds) will be managed by the governing debt ordinance and the provisions of the Internal Revenue Code of 1986 applicable to the issuance of tax exempt obligations and the investment of debt proceeds.

II. General Objectives

The primary objectives, in priority order, of investment activities shall be preservation and safety of principal, liquidity, and yield:

A. Safety: The foremost and primary objective of the City's investment program is the preservation and safety of principal in the overall portfolio. Each investment transaction will seek first to ensure that capital losses are avoided, whether the loss occurs from the default of a security or from erosion of market value. The objectives will be to mitigate credit risk and interest rate risk.

1) Credit Risk: The City of Carrollton will minimize credit risk, the risk of loss due to default of a security issuer or backer, by:
   - limiting investments to the safest types of securities;
   - pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which the City will do business; and
   - diversifying the investment portfolio so that potential losses on individual securities will be minimized.
   - Monitoring rating changes in investments acquired and held through communication with broker dealers, rating agencies, media research and the city's investment pricing vendor.

   Should an issuer experience a downgrade of its credit by a nationally recognized credit rating agency, the Chief Financial Officer and/or the Treasurer with the approval of the Finance Committee may approve the holding of the investment to maturity or until it is beneficial for the City to redeem the security.

2) Interest Rate Risk: The City of Carrollton will minimize the interest rate risk, related to the decline in market value of securities in the portfolio, due to changes in general interest rates, by:

- structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the secondary market prior to maturity;
- monitoring credit rating of portfolio positions to assure compliance with rating requirements imposed by the Public Funds Investment Act (Chapter 2256, Government Code); and
- investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools.

B. **Liquidity:** The City's investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. Liquidity will be achieved by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands (static liquidity). Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity). A portion of the portfolio also may be placed in money market mutual funds or local government investment pools, which offer same-day liquidity for short-term funds.

C. **Yield:** The City's investment portfolio shall be designed with the objective of attaining or exceeding a market rate of return compared to a benchmark of a rolling average of treasuries with comparable maturities to the total weighted average maturity of the portfolio throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. The core of investments is limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities shall not be sold prior to maturity with the following exceptions:

1) A security with declining credit may be sold early to minimize loss of principal.
2) A security swap would improve the quality, yield, or target duration in the portfolio.
3) Liquidity needs of the portfolio require that the security be sold.
4) If market conditions present an opportunity for the City to benefit from the sale.

Funds held for future capital projects will be invested in securities that can reasonably be expected to produce enough income to offset inflationary construction cost increases. However, such funds will never be unduly exposed to market price risks that will jeopardize the assets available to accomplish their stated objective, or be invested in a manner inconsistent with applicable federal and state regulations. Yields on debt proceeds that are not exempt from federal arbitrage regulations are limited to the arbitrage yield of the debt obligation. Investment officials will seek to preserve principal and maximize the yield of these funds in the same manner as all other City funds. However, it is understood that if the yield achieved by the City is higher than the arbitrage yield, positive arbitrage income will be averaged over a five year period and netted against any negative arbitrage income and the positive net arbitrage amount shall be rebated to the federal government as required by current federal regulations.

D. **Risk of Loss:** All participants in the investment process will seek to act responsibly as custodians of the public trust. Investment officials will avoid any transactions that might impair public confidence in the City's ability to govern effectively. The governing body recognizes that in a diversified portfolio, occasional measured losses due to market volatility are inevitable, and must be considered within the context of the overall portfolio's investment return, provided that the adequate diversification has been implemented and the terms of this policy have been followed.

III. Standards of Care

Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of capital as well as the probable income to be derived.

A. **Prudence:** The standard of prudence to be used by investment officials shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio of funds. Investment officials acting in accordance with written procedures and this investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion to the City Manager, Finance Committee and the City Council and appropriate action is taken in accordance with the terms of this policy.

B. **Ethics and Conflicts of Interest:** Investment officials and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial investment decisions. Investment officials shall disclose in writing to the City's Secretary's office of any material interests they hold in financial institutions with which they conduct business with on behalf of the City. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio and shall refrain from undertaking personal investment transactions with any individual with whom business is conducted on behalf of the City of Carrollton. Written Disclosure shall be made immediately upon discovery of the potential conflict.

C. **Delegation of Authority:** Oversight management responsibility for the investment program has been delegated to the Chief Financial Officer, to establish written procedures and controls for the operation of the investment program, consistent with this investment policy. Such procedures shall include explicit delegation of authority to persons responsible for the daily cash management operation, the execution of investment transactions, overall portfolio management, and investment reporting. This delegation of authority has been made to the City Treasurer. The City Treasurer shall establish written investment policy procedures for the operation of the investment program consistent with this policy. The procedures should include reference to safekeeping, Public Securities Association (PSA) repurchase agreements, wire transfers agreements, banking service contracts and collateral/depository agreements.

D. **Subordinates:** All persons involved in investment activities shall be referred to as "Investment Officials". No person shall engage in an investment transaction except as provided under the terms of this policy, the procedures established by the Chief Financial Officer and the explicit authorization by the City Manager to withdraw, transfer, deposit and invest the City's funds. The City Council, by resolution, has authorized the City Manager to appoint these individuals. The Chief Financial Officer and the City Treasurer shall be responsible for all transactions undertaken, and shall establish a system of controls to regulate the activities of subordinate Investment Officials.

IV. Safekeeping and Custody

A. **Authorized Financial Dealers and Institutions:** The Treasurer will maintain an approved list of financial institutions and security broker/dealers selected by creditworthiness who are authorized to provide investment services to the City of Carrollton, Texas. These may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission (SEC) Rule 15C3-1 (Uniform Net Capital Rule). No public deposit shall be made except in a qualified public depository as established by Texas laws.

The City Treasurer shall select at least one primary and three regional broker/dealers from the approved list to conduct most daily City investment business. These firms will be selected

based on the firm and individuals' background, experience and competitiveness. These firms will be reviewed at least annually required by the City Treasurer and changed as appropriate.

All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the Treasurer with the following:

1) Audited financial statements;
2) Proof of Financial Industry Regulatory (FINRA) Authority membership;
3) Proof registration with the State of Texas Securities Board;
4) Completed broker/dealer questionnaire; and
5) Texas Public Funds Investment Act acknowledgements from a business organization "qualified representative" of the financial institution or broker/dealer firm. All sales representatives on the City's accounts should certify that they have received, read, understood and agree to comply with the City's Investment Policy. The qualified representative should execute a written document acceptable to the City and the business organization (Appendix E).

A list of approved financial institutions and broker/dealer firms shall be maintained in Appendix A of this Investment Policy document. This approved list will be reviewed at least annually by the City Treasurer and any additions and deletions will be made as needed at that time. An annual review of the financial condition and registration of qualified financial institutions and broker/dealers will be conducted by the Investment Officials. A current financial statement is required to be on file for each financial institution and broker/dealer in which the City of Carrollton invests its funds.

Investments shall only be made with those firms and institutions that have:

1) provided all information required above;
2) acknowledged receipt and understanding of the City's Investment Policy in writing;
3) executed by a principal of the business organization written Public Fund Investment Act acknowledgements; and
4) met the qualifications and standards established by the City's Finance Committee and set forth in this policy.

B. **Depository Selection:** Depositories should be selected through the City's banking services procurement process, which shall include a formal request for proposal (RFP) issued not less than every five years with a typical contract being for two years with an option to extend the contract for an additional three years. In selecting depositories, the creditworthiness of institutions shall be considered, and the City Treasurer shall conduct a comprehensive review of prospective depositories, credit characteristics and financial history. No public deposit shall be made except in a qualified depository as established by state depository laws. The depository bank bid will not include bids for investment rates on certificates of deposit. Certificates of deposit rates will be bid competitively between financial institutions in accordance with the manner in which all other types of securities are purchased.

C. **Insurability:** Banks and Credit Unions seeking to establish eligibility for the City's competitive certificate of deposit purchase program shall submit financial statements, evidence of federal insurance, and other information as required by the Investment Officials and the City of Carrollton.

D. **Collateralization of City's Deposits:** Collateralization shall be required on depository bank deposits, certificates of deposit, repurchase (reverse) agreements, and securities identified and in accordance with the City of Carrollton Investment Policy, "Public Funds Investment Act", "Public Funds Collateral Act" and depository laws (see Appendix C). In order to anticipate market changes and provide a level of security for all funds, the collateralization level will not be less than 110% of market value of principal and accrued interest less an amount of $250,000, which represents insurance by the FDIC on certain types of bank deposits. Evidence of the pledged collateral shall be documented by a safekeeping agreement or a master repurchase agreement with the collateral pledged clearly listed in the agreement and

safekeeping confirmations. The master repurchase agreement must be executed and in place prior to the investment of funds. Collateral shall be monitored daily to ensure that the market value of the securities pledged equals or exceeds the related deposit or investment balance. The City of Carrollton shall accept only the following securities as collateral for cash deposits, certificates of deposit, and repurchase agreements:

1) FDIC insurance coverage.
2) General obligations of the United States of America or its agencies and instrumentalities, including the Federal Home Loan Bank (as defined by PFIA and this investment policy).
3) Fixed rate collateralized mortgage obligations, the principal and interest on which are unconditionally guaranteed by the United States of America or their respective agencies and instrumentalities and does not constitute a high-risk mortgage security as established by Chapter 2257 Collateral for Public Funds see Appendix C – Public Funds Collateral Act).
4) Obligations of states, agencies thereof, counties, cities and other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of no less than A or its equivalent.
5) Interest-bearing banking deposits that are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit union Share Insurance.
6) Bonds issued, assumed, or guaranteed by the State of Israel.
7) Other securities specifically authorized by the Finance Committee and this Investment Policy.

The City shall not accept, as depository collateral, any security that is not specifically allowed to be held as a direct investment by the City's portfolio and if the securities are Collateralized Mortgage Obligations the maximum maturity of the collateral securities may be no greater than ten years. Collateral will always be held by an independent third party with whom the City has a current custodial agreement. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to the City and retained. The safekeeping agreement must clearly define the responsibility of the safekeeping bank. The safekeeping institution shall be the Federal Reserve Bank or a branch of a Federal Reserve Bank. The safekeeping agreement shall include the authorized signatories of the City and the firm pledging collateral. Any substitutions of collateral must meet the requirements of the Public Funds Collateral Act, Public Funds Investment Act and this investment policy. Substitution of collateral must be approved by at least one investment officer of the City.

E. **Audit of Pledged Collateral:** All collateral shall be subject to verification and audit by the City Treasurer, the Chief Financial Officer, or the City's independent auditors.

F. **Delivery vs. Payment:** All security transactions, including collateral for repurchase agreements, entered into by the City of Carrollton shall be conducted on a **delivery-versus-payment (DVP)** basis. Securities will be held by a third party custodian approved by the City Treasurer or Chief Financial Officer and evidenced by safekeeping receipts.

G. **Safekeeping and Custody of Investment Assets:** All marketable securities transactions, including collateral for repurchase (reverse) agreements entered into by the City shall be executed (cleared and settle) using the delivery vs. payment (DVP) basis system. That is, funds shall not be wired or paid until verification has been made that the correct security was received by the City's safekeeping bank. The City's safekeeping or custody bank is responsible for matching up instructions from the investment officials on each investment settlement with what is received from the broker/dealer, prior to releasing the City's designated funds for a given purchase. The security shall be held in the name of the City or held on behalf of the City in a nominee name. Securities will be held by a third party custodian designated by the City Treasurer and evidenced by safekeeping receipts. The safekeeping bank's records shall assure the notation of the City's ownership of or explicit claim on the securities. The original copy of all safekeeping receipts shall be delivered to the City. A safekeeping agreement must be in place which clearly defines the responsibilities of the safekeeping bank.

V. Internal Controls

The Chief Financial Officer and the Treasurer are responsible for establishing and maintaining an internal control structure designed to protect the assets of the City of Carrollton. The internal control structure shall be designed to provide reasonable assurance that this objective is met.

Controls and managerial emphasis deemed most important that shall be employed where practical are:

- Control of collusion
- Separation of duties
- Separation of transaction authority from accounting and record keeping
- Custodian safekeeping receipts and records management
- Dual authorization of fed wire transfers
- Avoidance of physical delivery securities
- Documentation of investment bidding
- Clear delegation of authority to subordinate staff members
- Written confirmation from broker/dealers and financial institutions
- Reconcilements and comparisons of security receipts with the investment subsidiary records
- Compliance with investment policies
- Accurate and timely investment reports
- Adequate training and development of Investment Officials
- Verification of all investment income and security purchase and sell computations
- Review of financial condition of all broker/dealers and depository institutions
- Staying informed about market conditions, changes and trends that require adjustments in investment strategies

The above internal controls represent only a partial list of a system of internal controls. An annual process of independent review by an external auditor shall be established. This review will provide internal control by assuring compliance with laws, policies and procedures. This annual compliance audit is required by the "Public Funds Investment Act" [Section 2256.005(m)].

VI. Suitable and Authorized Investments by Policy

Investment type funds of the City of Carrollton, Texas (the "City") may be invested in the following investments, consistent with Chapter 2256 of the State of Texas Government Code, known as the "Public Funds Investment Act" (PFIA) and as authorized by this investment policy. Investments not specifically listed below will not be permitted by this policy.

- Obligations, including letters of credit, of the United States or its agencies and instrumentalities
- Direct obligations of the state of Texas or its agencies and instrumentalities, including the Federal Home Loan Bank

- Collateralized Mortgage Obligations (CMO) directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States with 10 years or less stated final maturity date.
- Other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of the state of Texas or the United States or their respective agencies and instrumentalities including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by explicit full faith and credit of the United States; and
- Obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by at least one nationally recognized investment rating firm not less than A or its equivalent.
- Bonds issued, assumed or guaranteed by the State of Israel.
- Interest-bearing banking deposits that are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit union Share Insurance.

Investment officials of the city are not authorized to invest in:

- obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal;
- obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest;
- collateralized mortgage obligations that have a stated final maturity date of greater than 10 years; and
- collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

A. Certificate of Deposit Will be selected after receiving bids from at least three depository Institutions or brokers dealers listed under “Approved Brokers Dealers” in this investment policy. The Certificates of Deposit must be issued by a depository institution that has its main office or a branch office in the state of Texas and is:

1) guaranteed or insured by the Federal Deposit Insurance Corporation, or its successor or the National Credit Union Share Insurance Fund or its successor;
2) secured by obligations that are described by Section 2256.009(a) of the PFIA, including mortgage backed securities directly issued by a federal agency or instrumentality that have a market value of not less than the principal amount of the certificates, but excluding those mortgage backed securities of the nature described by Section 2256.009(b) of the PFIA; or
3) secured in accordance with Chapter 2257 or in any other manner and amount provided by law for deposits of the City.

In addition to the authority to invest funds in certificates of deposit as specified above, an investment in certificates of deposit made in accordance with the following conditions is an authorized investment under this policy if:

1) the funds are invested by the City through;
    a) a broker that has a main office or branch office in the state of Texas and is selected from a list adopted by the City as required section 2256.025 of the PFIA and this policy; or
    b) a depository institution that has its main office or a branch office in the state of Texas and that is selected by the City;
2) the broker or the depository institution selected by the City as specified above, arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the City;
3) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States; and
4) the City appoints the depository institution selected by the City as required under caption “Certificates of Deposit” from
    a) a depository bank or a clearing broker dealer registered with the Securities and Exchange Commission Rule 15c-3 (17CFR, Section 240 15c3-3) as

custodian for the City's with respect to the certificates of deposit issued for the account of the City.

B. Bankers' Acceptances with a stated maturity of 180 days or less from the date of its issuance, in accordance with its terms, liquidated in full at maturity, eligible for collateral for borrowing from a Federal Reserve Bank and is accepted by a bank organized and existing under the laws of the United States or any state, if the short-term obligations of the bank or of a bank holding company of which the bank is the largest subsidiary are rated not less than A-1 or P-1 or an equivalent rating by at least one nationally recognized credit rating agency. ***No more than 10% of any one portfolio should be invested in bankers' acceptances and no more than 5% should be invested in the securities of a single bankers' acceptances issuer***.

C. Fully Collateralized Repurchase Agreement with a defined termination date, secured by obligations of the U.S. and its instrumentalities pledged to the City of Carrollton, held in the City's name, and deposited at the time the investment is made with the City with a third party selected and approved by the City, and placed through a primary broker/dealer or financial institution doing business in Texas. A master repurchase agreement must be executed and in place prior to the investment of funds. Collateralization of funds must be part of the agreement as stated in this investment policy under Collateralization of City Deposits.

"Repurchase agreement" means a simultaneous agreement to buy, hold for a specified period of time (not to exceed 30 days after the date the security repurchase agreement is delivered) and sell back at a future date, at a market value at the time the funds are disbursed of not less than the principal amount of the funds disbursed. The term includes a direct security repurchase agreement and a reverse security repurchase agreement. The agreements will be required to be priced not less than once a week.

D. Fully Collateralized Reverse Security Repurchase Agreements that do not exceed 30 days after the date the reverse security is delivered. Money received by the City under the terms of a reverse security repurchase agreement shall be used to acquire additional authorized investments, but the term of the authorized ***investments acquired must mature not later than the expiration date stated in the reverse security repurchase agreement.***

Money received by the City under the terms of a reverse security repurchase agreement shall be used to acquire additional authorized investments, but the authorize investments acquired ***must not*** mature later than the expiration date stated in the reverse security repurchase agreement.

E. Commercial Paper with a stated maturity of 180 days or fewer from the date of its issuance, rated not less than A-1 or P-1, or an equivalent rating by at least two nationally recognized credit rating agencies, or by one nationally recognized credit rating agency and is fully secured by an irrevocable letter of credit issued by a bank organized and existing under the laws of the United States or any state. ***No more than 20% of any one portfolio should be invested in commercial paper and no more than 5% should be invested in the securities of a single commercial paper issuer***.

F. No-Load Money Market Mutual Fund registered with and regulated by the Securities and Exchange Commission and provide the City with a prospectus and other information required by the Securities Exchange Act of 1934 (15 U.S.C. Section 78a et seq.) or the Investment Company Act of 1940 (15 U.S.C. Section 80a-1 et seq.), with a dollar-weighted average stated maturity of 90 days or less, invest exclusively in securities authorized by this investment policy and includes in its investment objectives the maintenance of a stable net asset value of $1 for each share***.***

G. No-Load Mutual Fund registered with the Securities and Exchange Commission with an average weighted maturity of less than two years, invested exclusively in obligations approved

by this policy, is continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent and conforms to the requirements set in the PFIA Sections 2256.016(b) and (c) comply with information reporting requirements for investment pools as described in the PFIA.

The City is not authorized to:

1) invest in the aggregate more than 15 percent of its monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service, in mutual funds
2) invest any portion of bond proceeds, reserves, and funds held for debt service in mutual funds
3) invest its funds or funds under its control, including bond proceeds and reserves and other funds held for debt service, in any one mutual fund described herein in an amount that exceeds 10 percent of the total assets of the mutual fund

H. Guaranteed Investment Contracts will be authorized for bond proceeds only with a defined termination date, secured by obligations of the U.S. and its instrumentalities and in accordance with this policy, in an amount at least equal to the amount of bond proceeds invested under the contract, pledged to the City and deposited with the City or with a third party selected and approved by the City.

Only bond proceeds representing reserves and funds maintained for debt service purposes, may be invested in a guaranteed investment contract with a term of longer than five years from the date of issuance of the bonds.

To be eligible as an authorized investment:

1) the governing body of the City must specifically authorize guaranteed investment contracts as an eligible investment in the order, ordinance, or resolution authorizing the issuance of bonds;
2) the City must receive bids from at least three separate providers with no material financial interest in the bonds from which proceeds were received;
3) the City must purchase the highest yielding guaranteed investment contract for which a qualifying bid is received;
4) price of the guaranteed investment contract must take into account the reasonably expected drawdown schedule for the bond proceeds to be invested; and
5) the provider must certify the administrative costs reasonably expected to be paid to third parties in connection with the guaranteed investment contract.

I. Investment Pools

1) The City Council by rule, order, ordinance, or resolution, as appropriate, authorizes investment in the particular pool. An investment pool shall invest the funds it receives from entities in authorized investments permitted by this investment policy and the PFIA. The City by contract may delegate to an investment pool the authority to hold legal title as custodian of investments purchased with its local funds.

2) No more than 40% of any one portfolio should be invested in a specific Local Government Pool with the exception of a state of emergency declared by the City Council, which at the time the limits may exceed 60% of the total portfolio holdings.

3) To be eligible to receive funds from and invest funds on behalf of the City of Carrollton, an investment pool must furnish to the investment officer or other authorized representative of the City an offering circular or other similar disclosure instrument that contains, at a minimum, the following information:
    a. the types of investments in which money is allowed to be invested;
    b. the maximum average dollar-weighted maturity allowed, based on the stated maturity date of the pool;

c. the maximum stated maturity date any investment security within the portfolio has;
d. the objectives of the pool;
e. the size of the pool;
f. the names of the members of the advisory board of the pool and the dates their terms expire;
g. the custodian bank that will safekeep the pool's assets;
h. whether the intent of the pool is to maintain a net asset value of one dollar and the risk of market price fluctuation;
i. whether the only source of payment is the assets of the pool at market value or whether there is a secondary source of payment, such as insurance or guarantees, and a description of the secondary source of payment;
k. the name and address of the independent auditor of the pool;
l. the requirements to be satisfied for an entity to deposit funds in and withdraw funds from the pool and any deadlines or other operating policies required for the entity to invest funds in and withdraw funds from the pool;
m. the performance history of the pool, including yield and how is calculated, average dollar-weighted maturities, and expense ratios;
n. the pool's policy regarding holding deposits in cash; and
o. an audited financial report.

4) To maintain eligibility to receive funds from and invest funds on behalf of the City, an investment pool must furnish the investment officer or other authorized representative of the City with:
   a. investment transaction confirmations; and
   b. a monthly report that contains, at a minimum, the following information:
      i. the types and percentage breakdown of securities in which the pool is invested;
      ii. the current average dollar-weighted maturity, based on the stated maturity date, of the pool;
      iii. the current percentage of the pool's portfolio in investments that have stated maturities of more than one year;
      iv. the book value versus the market value of the pool's portfolio, using amortized cost valuation;
      v. the size of the pool;
      vi. the number of participants in the pool;
      vii. the custodian bank that is safekeeping the assets of the pool;
      viii. a listing of daily transaction activity of the entity participating in the pool;
      ix. the yield and expense ratio of the pool;
      x. the portfolio managers of the pool;
      xi. any changes or addenda to the offering circular; and
      xii. calculation of the yield of the government pool in accordance with regulations governing the registration of open-end management investment companies under the Investment Company Act of 1940, as promulgated from time to time by the federal Securities and Exchange Commission.
5) To be eligible to receive funds from and invest funds on behalf of the City, a public funds investment pool that uses amortized cost or fair value accounting must:
   a. mark its portfolio to market daily, and, to the extent reasonably possible, stabilizes at a $1.00 net asset value, when rounded and expressed to two decimal places. If the ratio of the market value of the portfolio divided by the book value of the portfolio is less than 0.995 or greater than 1.005, the governing body of the public funds investment pool shall take action as the body determines necessary to elimante or reduce to the extent reasonably

practicable any dilution or unfair result to existing participants, including a sale of portfolio holdings to attempt to maintain the ratio between 0.995 and 1.005. Shall report yield to its investors in accordance with regulations of the federal Securities and Exchange Commission applicable to reporting money market funds;

b. have an advisory board composed equally of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool, for a public funds investment pool created under Chapter 791 and managed by a state agency; or of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool, for other investment pools; and

c. be continuously rated no lower than AAA or AAA-m or at an equivalent rating by at least one nationally recognized rating service.

J. Securities Lending

1) Authorized investments eligible for securities lending are any investments herein authorized by the investment policy.
2) The following conditions must be met:
   a. Collateralization shall be required on the securities lending agreement. In order to anticipate market changes and provide a level of security for all funds, the collateralization level will not be less than 102% of market value of principal and accrued interest.
   b. Securities held as collateral must be pledged to the City, held in the City's name and deposited with the City or with a third party selected and approved by the City.
   c. Money received by the City under the terms of a securities lending agreement shall be used to acquire additional authorized investments. The term of the authorized **investments acquired must mature every 30 days and no later than the expiration date stated in the securities lending agreement.** The investments must be priced daily by an independent pricing entity.
   d. A loan made under the program must allow for termination at any time and be secured by:
      i. Obligations, including letters of credit, of the United States or its agencies and instrumentalities.
      ii. Direct obligations of the state of Texas or its agencies and instrumentalities.
      iii. Collateralized Mortgage Obligations (CMO) directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States with 10 years or less stated final maturity date. Cannot be an inverse floater or a principal-only or interest-only CMO.
      iv. Other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of the state of Texas or the United States or their respective agencies and instrumentalities.
      v. Obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by two nationally recognized investment rating firms at not less than A or its equivalent.
3) A securities lending agreement must have a term of one year or less and will be subject to termination at any time by the City.
4) The securities lending agreement will be placed through a primary dealer or a financial institution doing business in Texas.

VII. Investment Parameters

A. Bidding Process for Investments: Investment Officials for the City may accept bids for certificates of deposit and for all marketable securities either orally, in writing, electronically, or in any combination of these methods. The investment officials will strive to receive three price quotes on marketable securities being sold, but may allow one broker/dealer to sell at a predetermined price under certain market conditions. Investments purchased shall be shopped competitively between approved financial institutions and broker/dealers. Security swaps are allowed as long as maturity extensions, credit quality changes and profits or losses taken are within the other guidelines set forth in this policy.

B. Diversification: It is the policy of the City of Carrollton to diversify its investment portfolios. Assets held in each investment portfolio shall be diversified to eliminate the risk of loss resulting from one concentration of assets in a specific maturity, a specific issuer or a specific class of securities. Diversification strategies shall be determined and revised periodically by the Finance Committee and City Council.

In establishing specific diversification strategies, the following general policies and constraints shall apply:

1) Portfolio maturities and potential call dates shall be staggered in a way that protects interest income from volatility of interest rates and avoids undue concentration of securities from a specific maturity or callable sector. Securities shall be selected which provide for stability of income and reasonable liquidity.
2) Risk of market price volatility shall be controlled through maturity diversification so that aggregate unrealized price losses on instruments with maturities exceeding one year shall not be greater than the coupon interest and investment income received from the balance of the portfolio.
3) The portfolio may be comprised of 100% of U.S. government obligations or 100% repurchase agreements. Other asset types shall be limited to no more than 20% of each portfolio. In addition commercial paper and bankers' acceptances shall be limited to no more than 5% of each portfolio held in any individual issuer name.
4) Continuously investing a portion of the portfolio in readily available funds such as local government investment pools, money market funds or overnight repurchase agreements to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.
5) The Finance Committee shall review diversification strategies and establish or confirm guidelines on a quarterly basis regarding the percentages of the total portfolio that may be invested in securities other than treasuries and agencies. The Finance Committee shall review the quarterly investment reports and evaluate the probability of market and default risk in various investment sectors as part of its consideration.

C. Maximum Maturities: To the extent possible, the City shall attempt to match its investments with anticipated cash flow requirements. The City of Carrollton will not directly invest in securities maturing more than ten years from the date of purchase and in accordance with state and local statutes and ordinances without the approval of Chief Financial Officer and Finance Committee. Reserve funds and other funds with longer-term investment horizons may be invested in securities exceeding five years if the maturity of such investments is made to coincide as nearly as practicable with the expected use of funds. Because of inherent difficulties in accurately forecasting cash flow requirements, a portion of the portfolio should be continuously invested in readily available funds such as government pools, money market funds, or overnight repurchase agreements to ensure that appropriate liquidity is maintained to meet ongoing obligations.

D. Maximum Dollar Weighted Average Maturity: Under most market conditions, the composite portfolio will be managed to achieve a two-year dollar-weighted average maturity. However, under certain market conditions, investment officials may need to shorten or

lengthen the average life or duration of the portfolio to protect the City. The maximum dollar-weighted average maturity based on the stated final maturity, authorized by this investment policy for the composite portfolio of the City shall be four years.

E. **Pricing:** Market price for investments acquired for the City's investment portfolio shall be priced using independent pricing sources and market value monitor at least monthly. When independent pricing service is unable to provide a security price, an average of the bid price of the security by three broker/dealers will be used. A complete report including market value will be provided monthly to the Chief Financial Officer and quarterly to the City Council.

F. **Investment Training:** Investment officials shall have finance, accounting or related degree, and knowledge of treasury functions. The Chief Financial Officer, City Treasurer and all investment officials of the City shall attend 10 hours of training relating to cash management and investment responsibilities within twelve months after assuming these duties for the City. In addition, each investment official shall receive 8 hours of training once in a two-year period that begins on the first day of the City's fiscal year and consists of the two consecutive years after that date. Training should be provided from an independent source (see Appendix A) approved by the City's Finance Committee. Training must include education in investments controls, security risks, strategy risks, market risks, diversification of investment portfolio, and compliance with Texas Public Funds Investment Act.

VIII. Investment Strategy

A. **Active vs. Passive Strategy:** The City of Carrollton intends to pursue an active vs. passive portfolio management philosophy. Active management means that the financial markets will be monitored by investment officials and investments will be purchased and sold based on the city's parameters for liquidity and based on market conditions. All marketable securities purchased by the City shall have active secondary markets, unless a specific cash outflow is being matched with an investment that will be held to maturity to meet that obligation. Securities may be purchased as a new issue or in the secondary markets. Securities may be sold before they mature if market conditions present an opportunity for the city to benefit from the trade or if changes in the market warrant the sale of securities to avoid future losses. Securities may be purchased with the intent from the beginning to sell them prior to maturity or with the expectation that the security would likely be called prior to maturity under the analyzed market scenario. Market and credit risk shall be minimized by diversification. Diversification by market sector and security types, as well as maturity, will be used to protect the City from credit and market risk in order to meet liquidity requirements.

The portfolio will be structured to benefit from anticipated market conditions and to achieve a reasonable return. Relative value between asset groups shall be analyzed and pursued as part of the active investment program within the restrictions set forth by this policy. The portfolio may be comprised of 100% direct government obligations or 100% repurchase agreements. Other asset types shall be limited to no more than 20% of each portfolio. In addition commercial paper and bankers' acceptances shall be limited to no more than 5% of each portfolio held in any individual issuer name in order to limit credit risk.

Specific strategies for each type of fund group of the city are as follows.

B. **Operating Funds:** Operating funds shall have their primary objective to assure that anticipated cash outflows are matched with the adequate investment liquidity. The secondary objective is to create a portfolio structure that will experience minimal volatility during changing economic cycles. These objectives may be accomplished by purchasing high quality, short to medium term securities in a laddered (maturities coming due regularly and staggered to match cash outflows) or barbell (maturities that are placed very short term and maturities that are longer term, such that the average achieves cash flows and income similar to buying in the middle of those maturity spectrums) maturity structure and by diversification among market sectors.

The dollar-weighted average maturity of the operating funds, based on the stated final maturity date of each security, will be calculated and limited to one year or less. However, each of the City's operating funds has a component classified as fund balance or reserve monies. The City generally tries to maintain 60 days working capital, or in the case of self-insured funds, an actuarial determined amount of reserves is set aside. Reserves for insurance may have a dollar weighted average of two years or less.

C. Capital Project Funds and Special Purpose Funds: Capital project funds and special purpose funds shall have as their primary objective to assure that anticipated cash outflows are matched with adequate investment liquidity. These portfolios should have liquid securities to allow for unanticipated project expenditures or accelerated project outlays due to a better than expected or changed construction schedule. The portfolios shall be invested based on cash flow estimates to be supplied by the capital projects managers and the capital project report completed by the accounting division. The dollar-weighted average life of the portfolio should be matched to that of the duration of the liabilities. Funds invested for capital projects may be from bond proceeds that are subject to arbitrage rebate regulations. The City will manage these funds as previously described, but will conduct an arbitrage rebate calculation annually to determine the income, if any, that has exceeded the arbitrage yield of the bond. This positive arbitrage income will be averaged over a five-year period and rebated to the federal government according to arbitrage regulations. A secondary objective of these funds is to achieve a yield equal or greater than the arbitrage yield of the applicable bond.

D. Debt Service Funds: Debt service funds shall have as the primary objective the assurance of investment liquidity adequate to cover the debt service obligation on the required payment date. Securities purchased shall not have a stated final maturity date which exceeds the debt service payment date.

E. Debt Service Reserve Funds: Debt service reserve funds shall have the primary objective to generate a dependable revenue stream of the appropriate debt service fund within the limits set forth by the bond ordinance or debt covenants specific to each individual bond issue. Individual securities may be invested to the stated final maturity of ten years or less and no more than a four year dollar-weighted average life.

IX. Finance Committee

A. Members: A finance committee consisting of three members of the City Council appointed by the City Council shall review the City's investment strategies and monitor the results of the investment program at least quarterly. The City Council shall adopt annually a written instrument by resolution stating that it has reviewed the investment policy and investment strategies and that the written instrument so adopted shall record any changes made to the investment policy or investment strategies. Primary staff liaisons with the Finance Committee for investment deliberations shall be the City Manager, Chief Financial Officer, City Treasurer, and Budget Management Analyst-Treasury. The Finance Committee will be authorized to invite other advisors to the meetings as needed.

B. Scope: The Finance Committee shall include in its deliberations such topics as economic outlook, investment strategies, portfolio diversification, maturity structure, potential risk to the City's funds, authorized broker/dealers, rate of return on the investment portfolio, and compliance with the investment policy. The Finance Committee will also advise the City Council of any future amendments to the investment policy that are deemed necessary or recommended.

C. Procedures: This investment policy shall require the Finance Committee to provide for minutes of any meetings held that are specifically to discuss investment information. Any member of the Finance Committee may request a special meeting, and two members will constitute a quorum. The Finance Committee will establish its own rules of procedures.

X. Reporting

A. Methods: The City Treasurer and other investment officials, under the direction of the Chief Financial Officer, shall prepare and submit an investment report at least quarterly, including a management summary that provides an analysis of the status of the current investment portfolio and transactions made over the last quarter. This management summary will be prepared in a manner that will allow the City to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report should be provided to the City Council, the City Manager, and the Finance Committee. The reports prepared by the Investment Officer shall be formally reviewed at least annually by an independent auditor, and the result of the review shall be reported to Council by the auditor. The City Council shall adopt a written instrument stating it has reviewed the annual investment report, the investment strategies and the investment policy. The report must contain the following:

1) Investment position of the City on the date of the report;
2) Prepared jointly by all investment officers of the City;
3) A signature of each investment official of the City;
4) A summary statement prepared in compliance with generally accepted accounting principles of each pooled fund or individual portfolio, sorted by type of asset, that states the fully accrued income for the reporting period; beginning market value for the reporting period; additions and changes to the market during the period; ending market value for the period; and the resulting change in market value that may have occurred and a comparison of the same to the previous quarter;
5) A comparison of book value vs. market value and the unrealized gain or loss at the end of the period and the comparison to the previous period by asset type and fund type invested;
6) State the duration or average maturity of each portfolio;
7) State the accounting fund or pooled group fund for which individual investments were acquired, by name or number or both;
8) State the compliance of the investment portfolio as it relates to the strategy expressed in the City's investment policy and compliance with the laws governing the City's investments;
9) Disclose the investment income earned by accounting fund;
10) Demonstrate the diversification of the City's investments;
11) Provide a summary of economic activity and recent financial market conditions; and
12) Provide a listing of broker/dealers and financial institutions with whom the City Council has approved the investment officers to conduct business on behalf of the City.

The fourth quarter investment report shall be named "The Investment Officer's Fourth Quarter and Annual Report" and will include the elements listed previously plus the following additional information:

13) Quarterly comparisons of diversification between asset types;
14) Comparisons of asset types by maturity and duration;
15) A description of the current banking and custodian safekeeping arrangements of the City; and
16) A comparison of the income earned by the City in an active investment program to what could have been earned during the same annual period by investing passively in 91 day treasury bills.

The City Treasurer is responsible for the recording of the investment transactions and the maintenance of the investment records with reconciliation of the accounting records of investments carried out by an individual reporting to the accounting manager. Information to maintain the investment program and the reporting requirements is derived from various sources such as broker/dealer research reports, newspapers, financial on-line market quotes, direct communication with broker/dealers, market pricing services, investment software for

maintenance of portfolio records and financial consulting services for performance of arbitrage calculations.

B. Performance Standards: The investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio should obtain a market average rate of return during a market/economic environment of stable interest rates. A series of treasury benchmarks whose final maturity most closely matches the WAM of the portfolio shall be established against which portfolio performance shall be compared on a regular basis.

C. Marking to Market: The market value of the portfolio shall be calculated at least monthly and a statement of the market value of the portfolio shall be issued at least quarterly. This will ensure that review of the investment portfolio, in terms of value and price volatility, has been performed.

XI. Investment Policy Considerations

Amendments: This policy shall be reviewed on an annual basis. Any changes must be approved by the Investment Officials, Finance Committee and City Council, as well as the individual(s) charged with maintaining internal controls. A written instrument should be adopted by the City Council, not less than annually, stating the City Council has reviewed and authorized the investment strategies and the amendments, to this Investment Policy.

APPENDIX A

AUTHORIZED BROKER/DEALERS, FINANCIAL INSTITUTIONS, AND GOVERNMENT POOLS

BROKER/DEALERS AND FINANCIAL INSTITUTIONS AUTHORIZED TO DO BUSINESS WITH THE CITY OF CARROLLTON

Frost Bank
FTN Financial Capital Markets
Incapital, LLC
Mutual Securities, Inc.
Ladenburg Thalmann & Co.
Raymond James & Associates, Inc.
RBC Capital Markets, LLC
Wells Fargo Securities, LLC

GOVERNMENT POOLS AUTHORIZED BY CITY COUNCIL RESOLUTION

(LOGIC) Local Government Investment Cooperative
(TEXPOOL) Texas Local Government Investment Pool

APPROVED PROVIDERS OF PFIA TRAINING

University of North Texas
Government Finance Officers Association
Government Finance Officers Association of Texas
Government Treasurers' Organization of Texas
Association of Public Treasurers of the United States and Canada
Texas Municipal League

APPENDIX B

PUBLIC FUNDS-PRIMARY LAWS AND REGULATIONS
PUBLIC FUNDS INVESTMENT ACT

GOVERNMENT CODE

TITLE 10. GENERAL GOVERNMENT

SUBTITLE F. STATE AND LOCAL CONTRACTS AND FUND MANAGEMENT

CHAPTER 2256. PUBLIC FUNDS INVESTMENT

SUBCHAPTER A. AUTHORIZED INVESTMENTS FOR GOVERNMENTAL ENTITIES

Sec. 2256.001. SHORT TITLE. This chapter may be cited as the Public Funds Investment Act.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995.

Sec. 2256.002. DEFINITIONS. In this chapter:

(1) "Bond proceeds" means the proceeds from the sale of bonds, notes, and other obligations issued by an entity, and reserves and funds maintained by an entity for debt service purposes.

(2) "Book value" means the original acquisition cost of an investment plus or minus the accrued amortization or accretion.

(3) "Funds" means public funds in the custody of a state agency or local government that:

(A) are not required by law to be deposited in the state treasury; and

(B) the investing entity has authority to invest.

(4) "Institution of higher education" has the meaning assigned by Section 61.003, Education Code.

(5) "Investing entity" and "entity" mean an entity subject to this chapter and described by Section 2256.003.

(6) "Investment pool" means an entity created under this code to invest public funds jointly on behalf of the entities that participate in the pool and whose investment objectives in order of priority are:

(A) preservation and safety of principal;

(B) liquidity; and

(C) yield.

(7) "Local government" means a municipality, a county, a school district, a district or authority created under Section 52(b)(1) or (2), Article III, or Section 59, Article XVI, Texas Constitution, a fresh water supply district, a hospital district, and any political subdivision, authority, public corporation, body politic, or instrumentality of the State of Texas, and any nonprofit corporation acting on behalf of any of those entities.

(8) "Market value" means the current face or par value of an investment multiplied by the net selling price of the security as quoted by a recognized market pricing source quoted on the valuation date.

(9) "Pooled fund group" means an internally created fund of an investing entity in which one or more institutional accounts of the investing entity are invested.

(10) "Qualified representative" means a person who holds a position with a business organization, who is authorized to act on behalf of the business organization, and who is one of the following:

(A) for a business organization doing business that is regulated by or registered with a securities commission, a person who is registered under the rules of the National Association of Securities Dealers;

(B) for a state or federal bank, a savings bank, or a state or federal credit union, a member of the loan committee for the bank or branch of the bank or a person authorized by corporate resolution to act on behalf of and bind the banking institution;

(C) for an investment pool, the person authorized by the elected official or board with authority to administer the activities of the investment pool to sign the written instrument on behalf of the investment pool; or

(D) for an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or, if not subject to registration under that Act, registered with the State Securities Board, a person who is an officer or principal of the investment management firm.

(11) "School district" means a public school district.

(12) "Separately invested asset" means an account or fund of a state agency or local government that is not invested in a pooled fund group.

(13) "State agency" means an office, department, commission, board, or other agency that is part of any branch of state government, an institution of higher education, and any nonprofit corporation acting on behalf of any of those entities.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 1421, Sec. 1, eff. Sept. 1, 1997; Acts 1999, 76th Leg., ch. 1454, Sec. 1, eff. Sept. 1, 1999.

Sec. 2256.003. AUTHORITY TO INVEST FUNDS; ENTITIES SUBJECT TO THIS CHAPTER. (a) Each governing body of the following entities may purchase, sell, and invest its funds and funds under its control in investments authorized under this subchapter in compliance with investment policies approved by the governing body and according to the standard of care prescribed by Section 2256.006:

(1) a local government;

(2) a state agency;

(3) a nonprofit corporation acting on behalf of a local government or a state agency; or

(4) an investment pool acting on behalf of two or more local governments, state agencies, or a combination of those entities.

(b) In the exercise of its powers under Subsection (a), the governing body of an investing entity may contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control. A contract made under authority of this subsection may not be for a term longer than two years. A renewal or extension of the contract must be made by the governing body of the investing entity by order, ordinance, or resolution.

(c) This chapter does not prohibit an investing entity or investment officer from using the entity's employees or the services of a contractor of the entity to aid the investment officer in the execution of the officer's duties under this chapter.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1999, 76th Leg., ch. 1454, Sec. 2, eff. Sept. 1, 1999.

This section was amended by the 85th Legislature. Pending publication of the current statutes, see H.B. 1003, 85th Legislature, Regular Session, for amendments affecting this section.

Sec. 2256.004. APPLICABILITY. (a) This subchapter does not apply to:

(1) a public retirement system as defined by Section 802.001;

(2) state funds invested as authorized by Section 404.024;

(3) an institution of higher education having total endowments of at least $95 million in book value on May 1, 1995;

(4) funds invested by the Veterans' Land Board as authorized by Chapter 161, 162, or 164, Natural Resources Code;

(5) registry funds deposited with the county or district clerk under Chapter 117, Local Government Code; or

(6) a deferred compensation plan that qualifies under either Section 401(k) or 457 of the Internal Revenue Code of 1986 (26 U.S.C. Section 1 et seq.), as amended.

(b) This subchapter does not apply to an investment donated to an investing entity for a particular purpose or under terms of use specified by the donor.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 505, Sec. 24, eff. Sept. 1, 1997; Acts 1997, 75th Leg., ch. 1421, Sec. 2, eff. Sept. 1, 1997; Acts 1999, 76th Leg., ch. 62, Sec. 8.21, eff. Sept. 1, 1999; Acts 1999, 76th Leg., ch. 1454, Sec. 3, eff. Sept. 1, 1999.

This section was amended by the 85th Legislature. Pending publication of the current statutes, see H.B. 1701, 85th Legislature, Regular Session, for amendments affecting this section.

Sec. 2256.005. INVESTMENT POLICIES; INVESTMENT STRATEGIES; INVESTMENT OFFICER. (a) The governing body of an investing entity shall adopt by rule, order, ordinance, or resolution, as appropriate, a written investment policy regarding the investment of its funds and funds under its control.

(b) The investment policies must:

(1) be written;

(2) primarily emphasize safety of principal and liquidity;

(3) address investment diversification, yield, and maturity and the quality and capability of investment management; and

(4) include:

(A) a list of the types of authorized investments in which the investing entity's funds may be invested;

(B) the maximum allowable stated maturity of any individual investment owned by the entity;

(C) for pooled fund groups, the maximum dollar-weighted average maturity allowed based on the stated maturity date for the portfolio;

(D) methods to monitor the market price of investments acquired with public funds;

(E) a requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis; and

(F) procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the provisions of Section 2256.021.

(c) The investment policies may provide that bids for certificates of deposit be solicited:

(1) orally;

(2) in writing;

(3) electronically; or

(4) in any combination of those methods.

(d) As an integral part of an investment policy, the governing body shall adopt a separate written investment strategy for each of the funds or group of funds under its control. Each investment strategy must describe the investment objectives for the particular fund using the following priorities in order of importance:

(1) understanding of the suitability of the investment to the financial requirements of the entity;

(2) preservation and safety of principal;

(3) liquidity;

(4) marketability of the investment if the need arises to liquidate the investment before maturity;

(5) diversification of the investment portfolio; and

(6) yield.

(e) The governing body of an investing entity shall review its investment policy and investment strategies not less than annually. The governing body shall adopt a written instrument by rule, order, ordinance, or resolution stating that it has reviewed the investment policy and investment strategies and that the written instrument so adopted shall record any changes made to either the investment policy or investment strategies.

(f) Each investing entity shall designate, by rule, order, ordinance, or resolution, as appropriate, one or more officers or employees of the state agency, local government, or investment pool as investment officer to be responsible for the investment of its funds consistent with the investment policy adopted by the entity. If the governing body of an investing entity has contracted with another investing entity to invest its funds, the investment officer of the other investing entity is considered to be the investment officer of the first investing entity for purposes of this chapter. Authority granted to a person to invest an entity's funds is effective until rescinded by the investing entity, until the expiration of the officer's term or the termination of the person's employment by the investing entity, or if an investment management firm, until the expiration of the contract with the investing entity. In the administration of the duties of an investment officer, the person designated as investment officer shall exercise the judgment and care, under prevailing circumstances, that a prudent person would exercise in the management of the person's own affairs, but the governing body of the investing entity retains ultimate responsibility as fiduciaries of the assets of the entity. Unless authorized by law, a person may not deposit, withdraw, transfer, or manage in any other manner the funds of the investing entity.

(g) Subsection (f) does not apply to a state agency, local government, or investment pool for which an officer of the entity is assigned by law the function of investing its funds.

Text of subsec. (h) as amended by Acts 1997, 75th Leg., ch. 685, Sec. 1

(h) An officer or employee of a commission created under Chapter 391, Local Government Code, is ineligible to be an investment officer for the commission under Subsection (f) if the officer or employee is an investment officer designated under Subsection (f) for another local government.

Text of subsec. (h) as amended by Acts 1997, 75th Leg., ch. 1421, Sec. 3

(h) An officer or employee of a commission created under Chapter 391, Local Government Code, is ineligible to be designated as an investment officer under Subsection (f) for any investing entity other than for that commission.

(i) An investment officer of an entity who has a personal business relationship with a business organization offering to engage in an investment transaction with the entity shall file a statement disclosing that personal business interest. An investment officer who is related within the second degree by affinity or consanguinity, as determined under Chapter 573, to an individual seeking to sell an investment to the investment officer's entity shall file a statement disclosing that relationship. A statement required under this subsection must be filed with the Texas Ethics Commission and the governing body of the entity. For purposes of this subsection, an investment officer has a personal business relationship with a business organization if:

(1) the investment officer owns 10 percent or more of the voting stock or shares of the business organization or owns $5,000 or more of the fair market value of the business organization;

(2) funds received by the investment officer from the business organization exceed 10 percent of the investment officer's gross income for the previous year; or

(3) the investment officer has acquired from the business organization during the previous year investments with a book value of $2,500 or more for the personal account of the investment officer.

(j) The governing body of an investing entity may specify in its investment policy that any investment authorized by this chapter is not suitable.

(k) A written copy of the investment policy shall be presented to any person offering to engage in an investment transaction with an investing entity or to an investment management firm under contract with an investing entity to invest or manage the entity's investment portfolio. For purposes of this subsection, a business organization includes investment pools and an investment management firm under contract with an investing entity to invest or manage the entity's investment portfolio. Nothing in this subsection relieves the investing entity of the responsibility for monitoring the investments made by the investing entity to determine that they are in compliance with the investment policy. The qualified representative of the business organization offering to engage in an investment transaction with an investing entity shall execute a written instrument in a form acceptable to the investing entity and the business organization substantially to the effect that the business organization has:

(1) received and reviewed the investment policy of the entity; and

(2) acknowledged that the business organization has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the entity and the organization that are not authorized by the entity's investment policy, except to the extent that this authorization is dependent on an analysis of the makeup of the entity's entire portfolio or requires an interpretation of subjective investment standards.

(l) The investment officer of an entity may not acquire or otherwise obtain any authorized investment described in the investment policy of the investing entity from a person who has not delivered to the entity the instrument required by Subsection (k).

(m) An investing entity other than a state agency, in conjunction with its annual financial audit, shall perform a compliance audit of management controls on investments and adherence to the entity's established investment policies.

(n) Except as provided by Subsection (o), at least once every two years a state agency shall arrange for a compliance audit of management controls on investments and adherence to the agency's

established investment policies. The compliance audit shall be performed by the agency's internal auditor or by a private auditor employed in the manner provided by Section 321.020. Not later than January 1 of each even-numbered year a state agency shall report the results of the most recent audit performed under this subsection to the state auditor. Subject to a risk assessment and to the legislative audit committee's approval of including a review by the state auditor in the audit plan under Section 321.013, the state auditor may review information provided under this section. If review by the state auditor is approved by the legislative audit committee, the state auditor may, based on its review, require a state agency to also report to the state auditor other information the state auditor determines necessary to assess compliance with laws and policies applicable to state agency investments. A report under this subsection shall be prepared in a manner the state auditor prescribes.

(o) The audit requirements of Subsection (n) do not apply to assets of a state agency that are invested by the comptroller under Section 404.024.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 685, Sec. 1, eff. Sept. 1, 1997; Acts 1997, 75th Leg., ch. 1421, Sec. 3, eff. Sept. 1, 1997; Acts 1999, 76th Leg., ch. 1454, Sec. 4, eff. Sept. 1, 1999; Acts 2003, 78th Leg., ch. 785, Sec. 41, eff. Sept. 1, 2003.
Amended by:

Acts 2011, 82nd Leg., R.S., Ch. 1004 (H.B. 2226), Sec. 1, eff. June 17, 2011.

Sec. 2256.006. STANDARD OF CARE. (a) Investments shall be made with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived. Investment of funds shall be governed by the following investment objectives, in order of priority:

(1) preservation and safety of principal;

(2) liquidity; and

(3) yield.

(b) In determining whether an investment officer has exercised prudence with respect to an investment decision, the determination shall be made taking into consideration:

(1) the investment of all funds, or funds under the entity's control, over which the officer had responsibility rather than a consideration as to the prudence of a single investment; and

(2) whether the investment decision was consistent with the written investment policy of the entity.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995.

Sec. 2256.007. INVESTMENT TRAINING; STATE AGENCY BOARD MEMBERS AND OFFICERS. (a) Each member of the governing board of a state agency and its investment officer shall attend at least one training session relating to the person's responsibilities under this chapter within six months after taking office or assuming duties.

(b) The Texas Higher Education Coordinating Board shall provide the training under this section.

(c) Training under this section must include education in investment controls, security risks, strategy risks, market risks, diversification of investment portfolio, and compliance with this chapter.

(d) An investment officer shall attend a training session not less than once each state fiscal biennium and may receive training from any independent source approved by the governing body of the state agency. The investment officer shall prepare a report on this subchapter and deliver the report to the governing body of the state agency not later than the 180th day after the last day of each regular session of the legislature.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 73, Sec. 1, eff. May 9, 1997; Acts 1997, 75th Leg., ch. 1421, Sec. 4, eff. Sept. 1, 1997; Acts 1999, 76th Leg., ch. 1454, Sec. 5, eff. Sept. 1, 1999.
Amended by:

Acts 2011, 82nd Leg., R.S., Ch. 1004 (H.B. 2226), Sec. 2, eff. June 17, 2011.

This section was amended by the 85th Legislature. Pending publication of the current statutes, see H.B. 1238 and S.B. 1488, 85th Legislature, Regular Session, for amendments affecting this section.

Sec. 2256.008. INVESTMENT TRAINING; LOCAL GOVERNMENTS.

Text of subsection as amended by Acts 2015, 84th Leg., R.S., Ch. 222 (H.B. 1148), Sec. 1

(a) Except as provided by Subsections (b) and (e), the treasurer, the chief financial officer if the treasurer is not the chief financial officer, and the investment officer of a local government shall:

(1) attend at least one training session from an independent source approved by the governing body of the local government or a designated investment committee advising the investment officer as provided for in the investment policy of the local government and containing at least 10 hours of instruction relating to the treasurer's or officer's responsibilities under this subchapter within 12 months after taking office or assuming duties; and

(2) except as provided by Subsections (b), (e), and (f), attend an investment training session not less than once in a two-year period that begins on the first day of that local government's fiscal year and consists of the two consecutive fiscal years after that date, and receive not less than 10 hours of instruction relating to investment responsibilities under this subchapter from an independent source approved by the governing body of the local government or a designated investment committee advising the investment officer as provided for in the investment policy of the local government.

Text of subsection as amended by Acts 2015, 84th Leg., R.S., Ch. 1248 (H.B. 870), Sec. 1

(a) Except as provided by Subsections (a-1), (b), and (e), the treasurer, the chief financial officer if the treasurer is not the chief financial officer, and the investment officer of a local government shall:

(1) attend at least one training session from an independent source approved by the governing body of the local government or a designated investment committee advising the investment officer as provided for in the investment policy of the local government and containing at least 10 hours of instruction relating to the treasurer's or officer's responsibilities under this subchapter within 12 months after taking office or assuming duties; and

(2) attend an investment training session not less than once in a two-year period that begins on the first day of that local government's fiscal year and consists of the two consecutive fiscal years after that date, and receive not less than 10 hours of instruction relating to investment responsibilities under this subchapter from an independent source approved by the governing body of the local government or a designated investment committee advising the investment officer as provided for in the investment policy of the local government.

(a-1) In addition to the requirements of Subsection (a)(1), the treasurer, or the chief financial officer if the treasurer is not the chief financial officer, and the investment officer of a school district or a municipality shall attend an investment training session not less than once in a two-year period that begins on the first day of the school district's or municipality's fiscal year and consists of the two consecutive fiscal years after that date, and receive not less than eight hours of instruction relating to investment responsibilities under this subchapter from an independent source approved by the governing body of the school district or municipality, or by a designated investment committee advising the investment officer as provided for in the investment policy of the school district or municipality.

(b) An investing entity created under authority of Section 52(b), Article III, or Section 59, Article XVI, Texas Constitution, that has contracted with an investment management firm under Section 2256.003(b) and has fewer than five full-time employees or an

investing entity that has contracted with another investing entity to invest the entity's funds may satisfy the training requirement provided by Subsection (a)(2) by having an officer of the governing body attend four hours of appropriate instruction in a two-year period that begins on the first day of that local government's fiscal year and consists of the two consecutive fiscal years after that date. The treasurer or chief financial officer of an investing entity created under authority of Section 52(b), Article III, or Section 59, Article XVI, Texas Constitution, and that has fewer than five full-time employees is not required to attend training required by this section unless the person is also the investment officer of the entity.

(c) Training under this section must include education in investment controls, security risks, strategy risks, market risks, diversification of investment portfolio, and compliance with this chapter.

(d) Not later than December 31 each year, each individual, association, business, organization, governmental entity, or other person that provides training under this section shall report to the comptroller a list of the governmental entities for which the person provided required training under this section during that calendar year. An individual's reporting requirements under this subsection are satisfied by a report of the individual's employer or the sponsoring or organizing entity of a training program or seminar.

(e) This section does not apply to a district governed by Chapter 36 or 49, Water Code.

(f) Subsection (a)(2) does not apply to an officer of a municipality if the municipality:

(1) does not invest municipal funds; or

(2) only deposits municipal funds in:

(A) interest-bearing deposit accounts; or

(B) certificates of deposit as authorized by Section 2256.010.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 1421, Sec. 5, eff. Sept. 1, 1997; Acts 1999, 76th Leg., ch. 1454, Sec. 6, eff. Sept. 1, 1999; Acts 2001, 77th Leg., ch. 69, Sec. 4, eff. May 14, 2001.

Amended by:

Acts 2011, 82nd Leg., R.S., Ch. 1004 (H.B. 2226), Sec. 3, eff. June 17, 2011.

Acts 2015, 84th Leg., R.S., Ch. 222 (H.B. 1148), Sec. 1, eff. September 1, 2015.

Acts 2015, 84th Leg., R.S., Ch. 1248 (H.B. 870), Sec. 1, eff. September 1, 2015.

This section was amended by the 85th Legislature. Pending publication of the current statutes, see H.B. 1003, H.B. 2647 and H.B. 2928, 85th Legislature, Regular Session, for amendments affecting this section.

Sec. 2256.009. AUTHORIZED INVESTMENTS: OBLIGATIONS OF, OR GUARANTEED BY GOVERNMENTAL ENTITIES. (a) Except as provided by Subsection (b), the following are authorized investments under this subchapter:

(1) obligations, including letters of credit, of the United States or its agencies and instrumentalities;

(2) direct obligations of this state or its agencies and instrumentalities;

(3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States;

(4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, this state or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States;

(5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent; and

(6) bonds issued, assumed, or guaranteed by the State of Israel.

(b) The following are not authorized investments under this section:

(1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal;

(2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest;

(3) collateralized mortgage obligations that have a stated final maturity date of greater than 10 years; and

(4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1999, 76th Leg., ch. 1454, Sec. 7, eff. Sept. 1, 1999; Acts 2001, 77th Leg., ch. 558, Sec. 1, eff. Sept. 1, 2001.
Amended by:

Acts 2011, 82nd Leg., R.S., Ch. 1004 (H.B. 2226), Sec. 4, eff. June 17, 2011.

This section was amended by the 85th Legislature. Pending publication of the current statutes, see H.B. 2928, 85th Legislature, Regular Session, for amendments affecting this section.

Sec. 2256.010. AUTHORIZED INVESTMENTS: CERTIFICATES OF DEPOSIT AND SHARE CERTIFICATES. (a) A certificate of deposit or share certificate is an authorized investment under this subchapter if the certificate is issued by a depository institution that has its main office or a branch office in this state and is:

(1) guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Share Insurance Fund or its successor;

(2) secured by obligations that are described by Section 2256.009(a), including mortgage backed securities directly issued by a federal agency or instrumentality that have a market value of not less than the principal amount of the certificates, but excluding

those mortgage backed securities of the nature described by Section 2256.009(b); or

(3) secured in any other manner and amount provided by law for deposits of the investing entity.

(b) In addition to the authority to invest funds in certificates of deposit under Subsection (a), an investment in certificates of deposit made in accordance with the following conditions is an authorized investment under this subchapter:

(1) the funds are invested by an investing entity through:

(A) a broker that has its main office or a branch office in this state and is selected from a list adopted by the investing entity as required by Section 2256.025; or

(B) a depository institution that has its main office or a branch office in this state and that is selected by the investing entity;

(2) the broker or the depository institution selected by the investing entity under Subdivision (1) arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the investing entity;

(3) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States; and

(4) the investing entity appoints the depository institution selected by the investing entity under Subdivision (1), an entity described by Section 2257.041(d), or a clearing broker-dealer registered with the Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the investing entity with respect to the certificates of deposit issued for the account of the investing entity.

Amended by Acts 1995, 74th Leg., ch. 32, Sec. 1, eff. April 28, 1995; Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 1421, Sec. 6, eff. Sept. 1, 1997.
Amended by:

Acts 2005, 79th Leg., Ch. 128 (H.B. 256), Sec. 1, eff. September 1, 2005.

Acts 2011, 82nd Leg., R.S., Ch. 1004 (H.B. 2226), Sec. 5, eff. June 17, 2011.

This section was amended by the 85th Legislature. Pending publication of the current statutes, see H.B. 1003, 85th Legislature, Regular Session, for amendments affecting this section.

Sec. 2256.011. AUTHORIZED INVESTMENTS: REPURCHASE AGREEMENTS. (a) A fully collateralized repurchase agreement is an authorized investment under this subchapter if the repurchase agreement:

(1) has a defined termination date;

(2) is secured by a combination of cash and obligations described by Section 2256.009(a)(1); and

(3) requires the securities being purchased by the entity or cash held by the entity to be pledged to the entity, held in the entity's name, and deposited at the time the investment is made with the entity or with a third party selected and approved by the entity; and

(4) is placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in this state.

(b) In this section, "repurchase agreement" means a simultaneous agreement to buy, hold for a specified time, and sell back at a future date obligations described by Section 2256.009(a)(1), at a market value at the time the funds are disbursed of not less than the principal amount of the funds disbursed. The term includes a direct security repurchase agreement and a reverse security repurchase agreement.

(c) Notwithstanding any other law, the term of any reverse security repurchase agreement may not exceed 90 days after the date the reverse security repurchase agreement is delivered.

(d) Money received by an entity under the terms of a reverse security repurchase agreement shall be used to acquire additional authorized investments, but the term of the authorized investments acquired must mature not later than the expiration date stated in the reverse security repurchase agreement.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995.

Amended by:

Acts 2011, 82nd Leg., R.S., Ch. 1004 (H.B. 2226), Sec. 6, eff. June 17, 2011.

Sec. 2256.0115. AUTHORIZED INVESTMENTS: SECURITIES LENDING PROGRAM. (a) A securities lending program is an authorized investment under this subchapter if it meets the conditions provided by this section.

(b) To qualify as an authorized investment under this subchapter:

(1) the value of securities loaned under the program must be not less than 100 percent collateralized, including accrued income;

(2) a loan made under the program must allow for termination at any time;

(3) a loan made under the program must be secured by:

(A) pledged securities described by Section 2256.009;

(B) pledged irrevocable letters of credit issued by a bank that is:

(i) organized and existing under the laws of the United States or any other state; and

(ii) continuously rated by at least one nationally recognized investment rating firm at not less than A or its equivalent; or

(C) cash invested in accordance with Section:

(i) 2256.009;

(ii) 2256.013;

(iii) 2256.014; or

(iv) 2256.016;

(4) the terms of a loan made under the program must require that the securities being held as collateral be:

(A) pledged to the investing entity;

(B) held in the investing entity's name; and

(C) deposited at the time the investment is made with the entity or with a third party selected by or approved by the investing entity;

(5) a loan made under the program must be placed through:

(A) a primary government securities dealer, as defined by 5 C.F.R. Section 6801.102(f), as that regulation existed on September 1, 2003; or

(B) a financial institution doing business in this state; and

(6) an agreement to lend securities that is executed under this section must have a term of one year or less.

Added by Acts 2003, 78th Leg., ch. 1227, Sec. 1, eff. Sept. 1, 2003.

Sec. 2256.012. AUTHORIZED INVESTMENTS: BANKER'S ACCEPTANCES. A bankers' acceptance is an authorized investment under this subchapter if the bankers' acceptance:

(1) has a stated maturity of 270 days or fewer from the date of its issuance;

(2) will be, in accordance with its terms, liquidated in full at maturity;

(3) is eligible for collateral for borrowing from a Federal Reserve Bank; and

(4) is accepted by a bank organized and existing under the laws of the United States or any state, if the short-term obligations of the bank, or of a bank holding company of which the bank is the largest subsidiary, are rated not less than A-1 or P-1 or an equivalent rating by at least one nationally recognized credit rating agency.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995.

Sec. 2256.013. AUTHORIZED INVESTMENTS: COMMERCIAL PAPER. Commercial paper is an authorized investment under this subchapter if the commercial paper:

(1) has a stated maturity of 270 days or fewer from the date of its issuance; and

(2) is rated not less than A-1 or P-1 or an equivalent rating by at least:

(A) two nationally recognized credit rating agencies; or

(B) one nationally recognized credit rating agency and is fully secured by an irrevocable letter of credit issued by a bank organized and existing under the laws of the United States or any state.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995.

This section was amended by the 85th Legislature. Pending publication of the current statutes, see H.B. 1003, 85th Legislature, Regular Session, for amendments affecting this section.

Sec. 2256.014. AUTHORIZED INVESTMENTS: MUTUAL FUNDS. (a) A no-load money market mutual fund is an authorized investment under this subchapter if the mutual fund:

(1) is registered with and regulated by the Securities and Exchange Commission;

(2) provides the investing entity with a prospectus and other information required by the Securities Exchange Act of 1934 (15 U.S.C. Section 78a et seq.) or the Investment Company Act of 1940 (15 U.S.C. Section 80a-1 et seq.);

(3) has a dollar-weighted average stated maturity of 90 days or fewer; and

(4) includes in its investment objectives the maintenance of a stable net asset value of $1 for each share.

(b) In addition to a no-load money market mutual fund permitted as an authorized investment in Subsection (a), a no-load mutual fund is an authorized investment under this subchapter if the mutual fund:

(1) is registered with the Securities and Exchange Commission;

(2) has an average weighted maturity of less than two years;

(3) is invested exclusively in obligations approved by this subchapter;

(4) is continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent; and

(5) conforms to the requirements set forth in Sections 2256.016(b) and (c) relating to the eligibility of investment pools to receive and invest funds of investing entities.

(c) An entity is not authorized by this section to:

(1) invest in the aggregate more than 15 percent of its monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service, in mutual funds described in Subsection (b);

(2) invest any portion of bond proceeds, reserves and funds held for debt service, in mutual funds described in Subsection (b); or

(3) invest its funds or funds under its control, including bond proceeds and reserves and other funds held for debt service, in any one mutual fund described in Subsection (a) or (b) in an amount that exceeds 10 percent of the total assets of the mutual fund.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 1421, Sec. 7, eff. Sept. 1, 1997; Acts 1999, 76th Leg., ch. 1454, Sec. 8, eff. Sept. 1, 1999.

This section was amended by the 85th Legislature. Pending publication of the current statutes, see H.B. 1003, 85th Legislature, Regular Session, for amendments affecting this section.

Sec. 2256.015. AUTHORIZED INVESTMENTS: GUARANTEED INVESTMENT CONTRACTS. (a) A guaranteed investment contract is an authorized investment for bond proceeds under this subchapter if the guaranteed investment contract:

(1) has a defined termination date;

(2) is secured by obligations described by Section 2256.009(a)(1), excluding those obligations described by Section 2256.009(b), in an amount at least equal to the amount of bond proceeds invested under the contract; and

(3) is pledged to the entity and deposited with the entity or with a third party selected and approved by the entity.

(b) Bond proceeds, other than bond proceeds representing reserves and funds maintained for debt service purposes, may not be invested under this subchapter in a guaranteed investment contract

with a term of longer than five years from the date of issuance of the bonds.

(c) To be eligible as an authorized investment:

(1) the governing body of the entity must specifically authorize guaranteed investment contracts as an eligible investment in the order, ordinance, or resolution authorizing the issuance of bonds;

(2) the entity must receive bids from at least three separate providers with no material financial interest in the bonds from which proceeds were received;

(3) the entity must purchase the highest yielding guaranteed investment contract for which a qualifying bid is received;

(4) the price of the guaranteed investment contract must take into account the reasonably expected drawdown schedule for the bond proceeds to be invested; and

(5) the provider must certify the administrative costs reasonably expected to be paid to third parties in connection with the guaranteed investment contract.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 1421, Sec. 8, eff. Sept. 1, 1997; Acts 1999, 76th Leg., ch. 1454, Sec. 9, 10, eff. Sept. 1, 1999.

This section was amended by the 85th Legislature. Pending publication of the current statutes, see H.B. 1003, 85th Legislature, Regular Session, for amendments affecting this section.

Sec. 2256.016. AUTHORIZED INVESTMENTS: INVESTMENT POOLS. (a) An entity may invest its funds and funds under its control through an eligible investment pool if the governing body of the entity by rule, order, ordinance, or resolution, as appropriate, authorizes investment in the particular pool. An investment pool shall invest the funds it receives from entities in authorized investments permitted by this subchapter. An investment pool may invest its funds in money market mutual funds to the extent permitted by and consistent with this subchapter and the investment policies and objectives adopted by the investment pool.

(b) To be eligible to receive funds from and invest funds on behalf of an entity under this chapter, an investment pool must furnish to the investment officer or other authorized representative of the entity an offering circular or other similar disclosure instrument that contains, at a minimum, the following information:

(1) the types of investments in which money is allowed to be invested;

(2) the maximum average dollar-weighted maturity allowed, based on the stated maturity date, of the pool;

(3) the maximum stated maturity date any investment security within the portfolio has;

(4) the objectives of the pool;

(5) the size of the pool;

(6) the names of the members of the advisory board of the pool and the dates their terms expire;

(7) the custodian bank that will safekeep the pool's assets;

(8) whether the intent of the pool is to maintain a net asset value of one dollar and the risk of market price fluctuation;

(9) whether the only source of payment is the assets of the pool at market value or whether there is a secondary source of payment, such as insurance or guarantees, and a description of the secondary source of payment;

(10) the name and address of the independent auditor of the pool;

(11) the requirements to be satisfied for an entity to deposit funds in and withdraw funds from the pool and any deadlines or other operating policies required for the entity to invest funds in and withdraw funds from the pool; and

(12) the performance history of the pool, including yield, average dollar-weighted maturities, and expense ratios.

(c) To maintain eligibility to receive funds from and invest funds on behalf of an entity under this chapter, an investment pool must furnish to the investment officer or other authorized representative of the entity:

(1) investment transaction confirmations; and

(2) a monthly report that contains, at a minimum, the following information:

(A) the types and percentage breakdown of securities in which the pool is invested;

(B) the current average dollar-weighted maturity, based on the stated maturity date, of the pool;

(C) the current percentage of the pool's portfolio in investments that have stated maturities of more than one year;

(D) the book value versus the market value of the pool's portfolio, using amortized cost valuation;

(E) the size of the pool;

(F) the number of participants in the pool;

(G) the custodian bank that is safekeeping the assets of the pool;

(H) a listing of daily transaction activity of the entity participating in the pool;

(I) the yield and expense ratio of the pool, including a statement regarding how yield is calculated;

(J) the portfolio managers of the pool; and

(K) any changes or addenda to the offering circular.

(d) An entity by contract may delegate to an investment pool the authority to hold legal title as custodian of investments purchased with its local funds.

(e) In this section, "yield" shall be calculated in accordance with regulations governing the registration of open-end management investment companies under the Investment Company Act of 1940, as promulgated from time to time by the federal Securities and Exchange Commission.

(f) To be eligible to receive funds from and invest funds on behalf of an entity under this chapter, a public funds investment pool created to function as a money market mutual fund must mark its portfolio to market daily, and, to the extent reasonably possible, stabilize at a $1 net asset value. If the ratio of the market value of the portfolio divided by the book value of the portfolio is less than 0.995 or greater than 1.005, portfolio holdings shall be sold as necessary to maintain the ratio between 0.995 and 1.005. In addition to the requirements of its investment policy and any other forms of reporting, a public funds investment pool created to function as a money market mutual fund shall report yield to its investors in

accordance with regulations of the federal Securities and Exchange Commission applicable to reporting by money market funds.

(g) To be eligible to receive funds from and invest funds on behalf of an entity under this chapter, a public funds investment pool must have an advisory board composed:

(1) equally of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool, for a public funds investment pool created under Chapter 791 and managed by a state agency; or

(2) of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool, for other investment pools.

(h) To maintain eligibility to receive funds from and invest funds on behalf of an entity under this chapter, an investment pool must be continuously rated no lower than AAA or AAA-m or at an equivalent rating by at least one nationally recognized rating service.

(i) If the investment pool operates an Internet website, the information in a disclosure instrument or report described in Subsections (b), (c)(2), and (f) must be posted on the website.

(j) To maintain eligibility to receive funds from and invest funds on behalf of an entity under this chapter, an investment pool must make available to the entity an annual audited financial statement of the investment pool in which the entity has funds invested.

(k) If an investment pool offers fee breakpoints based on fund balances invested, the investment pool in advertising investment rates must include either all levels of return based on the breakpoints provided or state the lowest possible level of return based on the smallest level of funds invested.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 1421, Sec. 9, eff. Sept. 1, 1997.
Amended by:

Acts 2011, 82nd Leg., R.S., Ch. 1004 (H.B. 2226), Sec. 7, eff. June 17, 2011.

This section was amended by the 85th Legislature. Pending publication of the current statutes, see S.B. 253, 85th Legislature, Regular Session, for amendments affecting this section.

Sec. 2256.017. EXISTING INVESTMENTS. An entity is not required to liquidate investments that were authorized investments at the time of purchase.

Added by Acts 1995, 74th Leg., ch. 76, Sec. 5.46(a), eff. Sept. 1, 1995; Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995. Amended by Acts 1997, 75th Leg., ch. 1421, Sec. 10, eff. Sept. 1, 1997.

Sec. 2256.019. RATING OF CERTAIN INVESTMENT POOLS. A public funds investment pool must be continuously rated no lower than AAA or AAA-m or at an equivalent rating by at least one nationally recognized rating service.

Added by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995. Amended by Acts 1997, 75th Leg., ch. 1421, Sec. 11, eff. Sept. 1, 1997.
Amended by:
Acts 2011, 82nd Leg., R.S., Ch. 1004 (H.B. 2226), Sec. 8, eff. June 17, 2011.

Sec. 2256.020. AUTHORIZED INVESTMENTS: INSTITUTIONS OF HIGHER EDUCATION. In addition to the authorized investments permitted by this subchapter, an institution of higher education may purchase, sell, and invest its funds and funds under its control in the following:

(1) cash management and fixed income funds sponsored by organizations exempt from federal income taxation under Section 501 (f), Internal Revenue Code of 1986 (26 U.S.C. Section 501(f));

(2) negotiable certificates of deposit issued by a bank that has a certificate of deposit rating of at least 1 or the equivalent by a nationally recognized credit rating agency or that is associated with a holding company having a commercial paper rating of

at least A-1, P-1, or the equivalent by a nationally recognized credit rating agency; and

(3) corporate bonds, debentures, or similar debt obligations rated by a nationally recognized investment rating firm in one of the two highest long-term rating categories, without regard to gradations within those categories.

Added by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995.

Sec. 2256.0201. AUTHORIZED INVESTMENTS; MUNICIPAL UTILITY. (a) A municipality that owns a municipal electric utility that is engaged in the distribution and sale of electric energy or natural gas to the public may enter into a hedging contract and related security and insurance agreements in relation to fuel oil, natural gas, coal, nuclear fuel, and electric energy to protect against loss due to price fluctuations. A hedging transaction must comply with the regulations of the Commodity Futures Trading Commission and the Securities and Exchange Commission. If there is a conflict between the municipal charter of the municipality and this chapter, this chapter prevails.

(b) A payment by a municipally owned electric or gas utility under a hedging contract or related agreement in relation to fuel supplies or fuel reserves is a fuel expense, and the utility may credit any amounts it receives under the contract or agreement against fuel expenses.

(c) The governing body of a municipally owned electric or gas utility or the body vested with power to manage and operate the municipally owned electric or gas utility may set policy regarding hedging transactions.

(d) In this section, "hedging" means the buying and selling of fuel oil, natural gas, coal, nuclear fuel, and electric energy futures or options or similar contracts on those commodities and related transportation costs as a protection against loss due to price fluctuation.

Added by Acts 1999, 76th Leg., ch. 405, Sec. 48, eff. Sept. 1, 1999. Amended by:

Acts 2007, 80th Leg., R.S., Ch. 7 (S.B. 495), Sec. 1, eff. April 13, 2007.

Sec. 2256.0202. AUTHORIZED INVESTMENTS: MUNICIPAL FUNDS FROM MANAGEMENT AND DEVELOPMENT OF MINERAL RIGHTS. (a) In addition to other investments authorized under this subchapter, a municipality may invest funds received by the municipality from a lease or contract for the management and development of land owned by the municipality and leased for oil, gas, or other mineral development in any investment authorized to be made by a trustee under Subtitle B, Title 9, Property Code (Texas Trust Code).

(b) Funds invested by a municipality under this section shall be segregated and accounted for separately from other funds of the municipality.

Added by Acts 2009, 81st Leg., R.S., Ch. 1371 (S.B. 894), Sec. 1, eff. September 1, 2009.

Sec. 2256.0203. AUTHORIZED INVESTMENTS: PORTS AND NAVIGATION DISTRICTS. (a) In this section, "district" means a navigation district organized under Section 52, Article III, or Section 59, Article XVI, Texas Constitution.

(b) In addition to the authorized investments permitted by this subchapter, a port or district may purchase, sell, and invest its funds and funds under its control in negotiable certificates of deposit issued by a bank that has a certificate of deposit rating of at least 1 or the equivalent by a nationally recognized credit rating agency or that is associated with a holding company having a commercial paper rating of at least A-1, P-1, or the equivalent by a nationally recognized credit rating agency.

Added by Acts 2011, 82nd Leg., R.S., Ch. 804 (H.B. 2346), Sec. 1, eff. September 1, 2011.

Sec. 2256.0204. AUTHORIZED INVESTMENTS: INDEPENDENT SCHOOL DISTRICTS. (a) In this section, "corporate bond" means a senior secured debt obligation issued by a domestic business entity and rated not lower than "AA-" or the equivalent by a nationally

recognized investment rating firm. The term does not include a debt obligation that:

(1) on conversion, would result in the holder becoming a stockholder or shareholder in the entity, or any affiliate or subsidiary of the entity, that issued the debt obligation; or

(2) is an unsecured debt obligation.

(b) This section applies only to an independent school district that qualifies as an issuer as defined by Section 1371.001.

(c) In addition to authorized investments permitted by this subchapter, an independent school district subject to this section may purchase, sell, and invest its funds and funds under its control in corporate bonds that, at the time of purchase, are rated by a nationally recognized investment rating firm "AA-" or the equivalent and have a stated final maturity that is not later than the third anniversary of the date the corporate bonds were purchased.

(d) An independent school district subject to this section is not authorized by this section to:

(1) invest in the aggregate more than 15 percent of its monthly average fund balance, excluding bond proceeds, reserves, and other funds held for the payment of debt service, in corporate bonds; or

(2) invest more than 25 percent of the funds invested in corporate bonds in any one domestic business entity, including subsidiaries and affiliates of the entity.

(e) An independent school district subject to this section may purchase, sell, and invest its funds and funds under its control in corporate bonds if the governing body of the district:

(1) amends its investment policy to authorize corporate bonds as an eligible investment;

(2) adopts procedures to provide for:

(A) monitoring rating changes in corporate bonds acquired with public funds; and

(B) liquidating the investment in corporate bonds; and

(3) identifies the funds eligible to be invested in corporate bonds.

(f) The investment officer of an independent school district, acting on behalf of the district, shall sell corporate bonds in which

the district has invested its funds not later than the seventh day after the date a nationally recognized investment rating firm:

(1) issues a release that places the corporate bonds or the domestic business entity that issued the corporate bonds on negative credit watch or the equivalent, if the corporate bonds are rated "AA-" or the equivalent at the time the release is issued; or

(2) changes the rating on the corporate bonds to a rating lower than "AA-" or the equivalent.

(g) Corporate bonds are not an eligible investment for a public funds investment pool.

Added by Acts 2011, 82nd Leg., R.S., Ch. 1347 (S.B. 1543), Sec. 1, eff. June 17, 2011.

Sec. 2256.0205. AUTHORIZED INVESTMENTS; DECOMMISSIONING TRUST. (a) In this section:

(1) "Decommissioning trust" means a trust created to provide the Nuclear Regulatory Commission assurance that funds will be available for decommissioning purposes as required under 10 C.F.R. Part 50 or other similar regulation.

(2) "Funds" includes any money held in a decommissioning trust regardless of whether the money is considered to be public funds under this subchapter.

(b) In addition to other investments authorized under this subchapter, a municipality that owns a municipal electric utility that is engaged in the distribution and sale of electric energy or natural gas to the public may invest funds held in a decommissioning trust in any investment authorized by Subtitle B, Title 9, Property Code.

Added by Acts 2005, 79th Leg., Ch. 121 (S.B. 1464), Sec. 1, eff. September 1, 2005.

Sec. 2256.021. EFFECT OF LOSS OF REQUIRED RATING. An investment that requires a minimum rating under this subchapter does not qualify as an authorized investment during the period the investment does not have the minimum rating. An entity shall take

all prudent measures that are consistent with its investment policy to liquidate an investment that does not have the minimum rating.

Added by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995.

Sec. 2256.022. EXPANSION OF INVESTMENT AUTHORITY. Expansion of investment authority granted by this chapter shall require a risk assessment by the state auditor or performed at the direction of the state auditor, subject to the legislative audit committee's approval of including the review in the audit plan under Section 321.013.

Added by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995. Amended by Acts 2003, 78th Leg., ch. 785, Sec. 42, eff. Sept. 1, 2003.

Sec. 2256.023. INTERNAL MANAGEMENT REPORTS. (a) Not less than quarterly, the investment officer shall prepare and submit to the governing body of the entity a written report of investment transactions for all funds covered by this chapter for the preceding reporting period.

(b) The report must:

(1) describe in detail the investment position of the entity on the date of the report;

(2) be prepared jointly by all investment officers of the entity;

(3) be signed by each investment officer of the entity;

(4) contain a summary statement of each pooled fund group that states the:

(A) beginning market value for the reporting period;

(B) ending market value for the period; and

(C) fully accrued interest for the reporting period;

(5) state the book value and market value of each separately invested asset at the end of the reporting period by the type of asset and fund type invested;

(6) state the maturity date of each separately invested asset that has a maturity date;

(7) state the account or fund or pooled group fund in the state agency or local government for which each individual investment was acquired; and

(8) state the compliance of the investment portfolio of the state agency or local government as it relates to:

(A) the investment strategy expressed in the agency's or local government's investment policy; and

(B) relevant provisions of this chapter.

(c) The report shall be presented not less than quarterly to the governing body and the chief executive officer of the entity within a reasonable time after the end of the period.

(d) If an entity invests in other than money market mutual funds, investment pools or accounts offered by its depository bank in the form of certificates of deposit, or money market accounts or similar accounts, the reports prepared by the investment officers under this section shall be formally reviewed at least annually by an independent auditor, and the result of the review shall be reported to the governing body by that auditor.

Added by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995. Amended by Acts 1997, 75th Leg., ch. 1421, Sec. 12, eff. Sept. 1, 1997.

Amended by:

Acts 2011, 82nd Leg., R.S., Ch. 1004 (H.B. 2226), Sec. 9, eff. June 17, 2011.

This section was amended by the 85th Legislature. Pending publication of the current statutes, see S.B. 253, 85th Legislature, Regular Session, for amendments affecting this section.

Sec. 2256.024. SUBCHAPTER CUMULATIVE. (a) The authority granted by this subchapter is in addition to that granted by other law. Except as provided by Subsection (b), this subchapter does not:

(1) prohibit an investment specifically authorized by other law; or

(2) authorize an investment specifically prohibited by other law.

(b) Except with respect to those investing entities described in Subsection (c), a security described in Section 2256.009(b) is not an authorized investment for a state agency, a local government, or another investing entity, notwithstanding any other provision of this chapter or other law to the contrary.

(c) Mortgage pass-through certificates and individual mortgage loans that may constitute an investment described in Section 2256.009 (b) are authorized investments with respect to the housing bond programs operated by:

(1) the Texas Department of Housing and Community Affairs or a nonprofit corporation created to act on its behalf;

(2) an entity created under Chapter 392, Local Government Code; or

(3) an entity created under Chapter 394, Local Government Code.

Added by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995.

Sec. 2256.025. SELECTION OF AUTHORIZED BROKERS. The governing body of an entity subject to this subchapter or the designated investment committee of the entity shall, at least annually, review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the entity.

Added by Acts 1997, 75th Leg., ch. 1421, Sec. 13, eff. Sept. 1, 1997.

Sec. 2256.026. STATUTORY COMPLIANCE. All investments made by entities must comply with this subchapter and all federal, state, and local statutes, rules, or regulations.

Added by Acts 1997, 75th Leg., ch. 1421, Sec. 13, eff. Sept. 1, 1997.

SUBCHAPTER B. MISCELLANEOUS PROVISIONS

Sec. 2256.051. ELECTRONIC FUNDS TRANSFER. Any local government may use electronic means to transfer or invest all funds collected or controlled by the local government.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995.

Sec. 2256.052. PRIVATE AUDITOR. Notwithstanding any other law, a state agency shall employ a private auditor if authorized by the legislative audit committee either on the committee's initiative or on request of the governing body of the agency.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995.

Sec. 2256.053. PAYMENT FOR SECURITIES PURCHASED BY STATE. The comptroller or the disbursing officer of an agency that has the power to invest assets directly may pay for authorized securities purchased from or through a member in good standing of the National Association of Securities Dealers or from or through a national or state bank on receiving an invoice from the seller of the securities showing that the securities have been purchased by the board or agency and that the amount to be paid for the securities is just, due, and unpaid. A purchase of securities may not be made at a price that exceeds the existing market value of the securities.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 1423, Sec. 8.67, eff. Sept. 1, 1997.

Sec. 2256.054. DELIVERY OF SECURITIES PURCHASED BY STATE. A security purchased under this chapter may be delivered to the comptroller, a bank, or the board or agency investing its funds. The delivery shall be made under normal and recognized practices in the securities and banking industries, including the book entry procedure of the Federal Reserve Bank.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 1423, Sec. 8.68, eff. Sept. 1, 1997.

Sec. 2256.055. DEPOSIT OF SECURITIES PURCHASED BY STATE. At the direction of the comptroller or the agency, a security purchased under this chapter may be deposited in trust with a bank or federal reserve bank or branch designated by the comptroller, whether in or outside the state. The deposit shall be held in the entity's name as

evidenced by a trust receipt of the bank with which the securities are deposited.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 1423, Sec. 8.69, eff. Sept. 1, 1997.

AN ACT

relating to investment of public funds, including certain expenditures by public institutions of higher education and university systems that are eligible for certain tax credits.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF TEXAS:

SECTION 1. Section 2256.004(a), Government Code, is amended to read as follows:

(a) This subchapter does not apply to:

(1) a public retirement system as defined by Section 802.001;

(2) state funds invested as authorized by Section 404.024;

(3) an institution of higher education having total endowments of at least $150 [~~$95~~] million in book value on September 1, 2017 [~~May 1, 1995~~];

(4) funds invested by the Veterans' Land Board as authorized by Chapter 161, 162, or 164, Natural Resources Code;

(5) registry funds deposited with the county or district clerk under Chapter 117, Local Government Code; or

(6) a deferred compensation plan that qualifies under either Section 401(k) or 457 of the Internal Revenue Code of 1986 (26 U.S.C. Section 1 et seq.), as amended.

SECTION 2. Section 2256.009(a), Government Code, is amended to read as follows:

(a) Except as provided by Subsection (b), the following are authorized investments under this subchapter:

(1) obligations, including letters of credit, of the United States or its agencies and instrumentalities;

(2) direct obligations of this state or its agencies and instrumentalities;

(3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States;

(4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, this state or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States;

(5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent; [~~and~~]

(6) bonds issued, assumed, or guaranteed by the State of Israel; and

(7) interest-bearing banking deposits that are guaranteed or insured by:

(A) the Federal Deposit Insurance Corporation or its successor; or

(B) the National Credit Union Share Insurance Fund or its successor.

SECTION 3. Section 2256.011, Government Code, is amended by adding Subsection (e) to read as follows:

(e) Section 1371.059(c) applies to the execution of a repurchase agreement by an investing entity.

SECTION 4. Sections 2256.014(a) and (b), Government Code, are amended to read as follows:

(a) A no-load money market mutual fund is an authorized investment under this subchapter if the mutual fund:

(1) is registered with and regulated by the Securities and Exchange Commission;

(2) provides the investing entity with a prospectus and other information required by the Securities Exchange Act of 1934 (15 U.S.C. Section 78a et seq.) or the Investment Company Act of 1940 (15 U.S.C. Section 80a-1 et seq.); and

(3) complies with federal Securities and Exchange Commission Rule 2a-7 (17 C.F.R. Section 270.2a-7), promulgated under the Investment Company Act of 1940 (15 U.S.C. Section 80a-1 et seq.) [~~has a dollar-weighted average stated maturity of 90 days or fewer; and~~

[~~(4) - - includes in its investment objectives the maintenance of a stable net asset value of $1 for each share~~].

(b) In addition to a no-load money market mutual fund permitted as an authorized investment in Subsection (a), a no-load mutual fund is an authorized investment under this subchapter if the mutual fund:

(1) is registered with the Securities and Exchange Commission;

(2) has an average weighted maturity of less than two years; and

(3) either:

(A) has a duration of one year or more and is invested exclusively in obligations approved by this subchapter; or

(B) has a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities

[~~(4) - - is continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent; and~~

[~~(5) - - conforms to the requirements set forth in Sections 2256.016(b) and (c) relating to the eligibility of investment pools to receive and invest funds of investing entities~~].

SECTION 5. Section 2256.015, Government Code, is amended by adding Subsection (d) to read as follows:

(d) Section 1371.059(c) applies to the execution of a guaranteed investment contract by an investing entity.

SECTION 6. Sections 2256.016(b) and (f), Government Code, are amended to read as follows:

(b) To be eligible to receive funds from and invest funds on behalf of an entity under this chapter, an investment pool must furnish to the investment officer or other authorized representative of the entity an offering circular or other similar disclosure instrument that contains, at a minimum, the following information:

(1) the types of investments in which money is allowed to be invested;

(2) the maximum average dollar-weighted maturity allowed, based on the stated maturity date, of the pool;

(3) the maximum stated maturity date any investment security within the portfolio has;

(4) the objectives of the pool;

(5) the size of the pool;

(6) the names of the members of the advisory board of the pool and the dates their terms expire;

(7) the custodian bank that will safekeep the pool's assets;

(8) whether the intent of the pool is to maintain a net asset value of one dollar and the risk of market price fluctuation;

(9) whether the only source of payment is the assets of the pool at market value or whether there is a secondary source of payment, such as insurance or guarantees, and a description of the secondary source of payment;

(10) the name and address of the independent auditor of the pool;

(11) the requirements to be satisfied for an entity to deposit funds in and withdraw funds from the pool and any deadlines or other operating policies required for the entity to invest funds in and withdraw funds from the pool; [~~and~~]

(12) the performance history of the pool, including yield, average dollar-weighted maturities, and expense ratios; and

(13) the pool's policy regarding holding deposits in cash.

(f) To be eligible to receive funds from and invest funds on behalf of an entity under this chapter, a public funds investment pool that uses amortized cost or fair value accounting [~~created to function as a money market mutual fund~~] must mark its portfolio to market daily, and, to the extent reasonably possible, stabilize at a $1.00 [~~$1~~] net asset value, when rounded and expressed to two decimal places. If the ratio of the market value of the portfolio divided by the book value of the portfolio is less than 0.995 or greater than 1.005, the governing body of the public funds investment pool shall take action as the body determines necessary to eliminate or reduce to the extent reasonably practicable any dilution or unfair result to existing participants, including a sale of portfolio holdings to attempt [~~shall be sold as necessary~~] to maintain the ratio between 0.995 and 1.005. In addition to the requirements of its investment policy and any other forms of reporting, a public funds investment pool that uses amortized cost [~~created to function as a money market mutual fund~~] shall report yield to its investors in accordance with regulations of the federal Securities and Exchange Commission applicable to reporting by money market funds.

SECTION 7. Subchapter A, Chapter 2256, Government Code, is amended by adding Section 2256.0206 to read as follows:

Sec. 2256.0206. AUTHORIZED INVESTMENTS: HEDGING TRANSACTIONS. (a) In this section:

(1) "Eligible entity" means a political subdivision that has:

(A) a principal amount of at least $250 million in:

(i) outstanding long-term indebtedness;

(ii) long-term indebtedness proposed to be issued; or

(iii) a combination of outstanding long-term indebtedness and long-term indebtedness proposed to be issued; and

(B) outstanding long-term indebtedness that is rated in one of the four highest rating categories for long-term debt instruments by a nationally recognized rating agency for municipal securities, without regard to the effect of any credit agreement or other form of credit enhancement entered into in connection with the obligation.

(2) "Eligible project" has the meaning assigned by Section 1371.001.

(3) "Hedging" means acting to protect against economic loss due to price fluctuation of a commodity or related investment

by entering into an offsetting position or using a financial agreement or producer price agreement in a correlated security, index, or other commodity.

(b) This section prevails to the extent of any conflict between this section and:

(1) another law; or

(2) an eligible entity's municipal charter, if applicable.

(c) The governing body of an eligible entity shall establish the entity's policy regarding hedging transactions.

(d) An eligible entity may enter into hedging transactions, including hedging contracts, and related security, credit, and insurance agreements in connection with commodities used by an eligible entity in the entity's general operations, with the acquisition or construction of a capital project, or with an eligible project. A hedging transaction must comply with the regulations of the federal Commodity Futures Trading Commission and the federal Securities and Exchange Commission.

(e) An eligible entity may pledge as security for and to the payment of a hedging contract or a security, credit, or insurance agreement any general or special revenues or funds the entity is authorized by law to pledge to the payment of any other obligation.

(f) Section 1371.059(c) applies to the execution by an eligible entity of a hedging contract and any related security, credit, or insurance agreement.

(g) An eligible entity may credit any amount the entity receives under a hedging contract against expenses associated with a commodity purchase.

(h) An eligible entity's cost of or payment under a hedging contract or agreement may be considered:

(1) an operation and maintenance expense of the eligible entity;

(2) an acquisition expense of the eligible entity;

(3) a project cost of an eligible project; or

(4) a construction expense of the eligible entity.

SECTION 8. (a) Section 171.901(4), Tax Code, is amended to read as follows:

(4) "Eligible costs and expenses" means qualified rehabilitation expenditures as defined by Section 47(c)(2), Internal Revenue Code, except that the depreciation and tax-exempt use provisions of that section do not apply to costs and expenses incurred by an entity exempt from the tax imposed under this chapter by Section 171.063 or by an institution of higher education or university system as defined by Section 61.003, Education Code, and those costs and expenses are eligible costs and expenses if the other provisions of Section 47(c)(2), Internal Revenue Code, are satisfied.

(b) Effective January 1, 2022, Section 171.901(4), Tax Code, is amended to read as follows:

(4) "Eligible costs and expenses" means qualified rehabilitation expenditures as defined by Section 47(c)(2), Internal Revenue Code, except that the depreciation and tax-exempt use provisions of that section do not apply to costs and expenses incurred by an entity exempt from the tax imposed under this chapter by Section 171.063, and those costs and expenses are eligible costs and expenses if the other provisions of Section 47(c)(2), Internal Revenue Code, are satisfied.

SECTION 9. The changes in law made by this Act apply only to authorized investments of public funds governed by Chapter 2256, Government Code, as amended by this Act, that are made on or after the effective date of this Act. An authorized investment of public funds made before the effective date of this Act is governed by the

law in effect immediately before that date, and that law is continued in effect for that purpose.

SECTION 10. (a) Section 171.901(4), Tax Code, as amended by Section 8(a) of this Act, applies only to costs and expenses incurred on or after the effective date of this Act.

(b) Section 171.901(4), Tax Code, as amended by Section 8(b) of this Act, applies only to costs and expenses incurred on or after January 1, 2022.

SECTION 11. This Act takes effect immediately if it receives a vote of two-thirds of all the members elected to each house, as provided by Section 39, Article III, Texas Constitution. If this Act does not receive the vote necessary for immediate effect, this Act takes effect September 1, 2017.

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President of the Senate Speaker of the House

I certify that H.B. No. 1003 was passed by the House on April 28, 2017, by the following vote: Yeas 134, Nays 0, 2 present, not voting; that the House refused to concur in Senate amendments to H.B. No. 1003 on May 25, 2017, and requested the appointment of a conference committee to consider the differences between the two houses; and that the House adopted the conference committee report on H.B. No. 1003 on May 28, 2017, by the following vote: Yeas 145, Nays 2, 2 present, not voting.

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Chief Clerk of the House

I certify that H.B. No. 1003 was passed by the Senate, with amendments, on May 22, 2017, by the following vote: Yeas 30, Nays 0; at the request of the House, the Senate appointed a conference committee to consider the differences between the two houses; and that the Senate adopted the conference committee report on H.B. No. 1003 on May 28, 2017, by the following vote: Yeas 31, Nays 0.

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Secretary of the Senate

APPROVED: _____

Date

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Governor

AN ACT

relating to the presentation of the investment policy of certain governmental entities to a business organization that conducts investment transactions for the entity.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF TEXAS:

SECTION 1. Sections 2256.005(k) and (l), Government Code, are amended to read as follows:

(k) A written copy of the investment policy shall be presented to any business organization [~~person~~] offering to engage in an investment transaction with an investing entity [~~or to an investment management firm under contract with an investing entity to invest or manage the entity's investment portfolio~~]. For purposes of this subsection and Subsection (l), "business organization" means an [~~a business organization includes~~] investment pool or [~~pools and an~~] investment management firm under contract with an investing entity to invest or manage the entity's investment portfolio that has accepted authority granted by the entity under the contract to exercise investment discretion in regard to the investing entity's funds. Nothing in this subsection relieves the investing entity of the responsibility for monitoring the investments made by the investing entity to determine that they are in compliance with the investment policy. The qualified representative of the business organization offering to engage in an investment transaction with an investing entity shall execute a written instrument in a form acceptable to the investing entity and the business organization substantially to the effect that the business organization has:

(1) received and reviewed the investment policy of the entity; and

(2) acknowledged that the business organization has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the entity and the organization that are not authorized by the entity's investment policy, except to the extent that this authorization:

(A) is dependent on an analysis of the makeup of the entity's entire portfolio;

(B) [~~or~~] requires an interpretation of subjective investment standards; or

(C) relates to investment transactions of the entity that are not made through accounts or other contractual arrangements over which the business organization has accepted discretionary investment authority.

(l) The investment officer of an entity may not acquire or otherwise obtain any authorized investment described in the investment policy of the investing entity from a business organization that [~~person who~~] has not delivered to the entity the instrument required by Subsection (k).

SECTION 2. The changes in law made by this Act apply only to a contract for an investment transaction entered into with a business organization under Chapter 2256, Government Code, on or after the effective date of this Act. A contract entered into before the effective date of this Act is subject to the law in effect at the time the contract was entered into, and the former law is continued in effect for that purpose.

SECTION 3. This Act takes effect September 1, 2017.

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President of the Senate Speaker of the House

I certify that H.B. No. 1701 was passed by the House on April 20, 2017, by the following vote: Yeas 144, Nays 0, 2 present, not voting.

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Chief Clerk of the House

I certify that H.B. No. 1701 was passed by the Senate on May 12, 2017, by the following vote: Yeas 31, Nays 0.

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Secretary of the Senate

APPROVED: _____

Date

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Governor

AN ACT

relating to authorized investments of public funds.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF TEXAS:

SECTION 1. Section 2256.009(a), Government Code, is amended to read as follows:

(a) Except as provided by Subsection (b), the following are authorized investments under this subchapter:

(1) obligations, including letters of credit, of the United States or its agencies and instrumentalities;

(2) direct obligations of this state or its agencies and instrumentalities;

(3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States;

(4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, this state or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States;

(5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent; [~~and~~]

(6) bonds issued, assumed, or guaranteed by the State of Israel;

(7) interest-bearing banking deposits that are guaranteed or insured by:

(A) the Federal Deposit Insurance Corporation or its successor; or

(B) the National Credit Union Share Insurance Fund or its successor; and

(8) interest-bearing banking deposits other than those described by Subdivision (7) if:

(A) the funds invested in the banking deposits are invested through:

(i) a broker with a main office or branch office in this state that the investing entity selects from a list the governing body or designated investment committee of the entity adopts as required by Section 2256.025; or

(ii) a depository institution with a main office or branch office in this state that the investing entity selects;

(B) the broker or depository institution selected as described by Paragraph (A) arranges for the deposit of the funds in the banking deposits in one or more federally insured depository institutions, regardless of where located, for the investing entity's account;

(C) the full amount of the principal and accrued interest of the banking deposits is insured by the United States or an instrumentality of the United States; and

(D) the investing entity appoints as the entity's custodian of the banking deposits issued for the entity's account:

(i) the depository institution selected as described by Paragraph (A);

(ii) an entity described by Section 2257.041(d); or

(iii) a clearing broker dealer registered with the Securities and Exchange Commission and operating under Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3).

SECTION 2. The changes in law made by this Act apply only to authorized investments of public funds governed by Section 2256.009, Government Code, as amended by this Act, that are made on or after the effective date of this Act. An authorized investment of public funds made before the effective date of this Act is governed by the law in effect immediately before that date, and that law is continued in effect for that purpose.

SECTION 3. This Act takes effect immediately if it receives a vote of two-thirds of all the members elected to each house, as provided by Section 39, Article III, Texas Constitution. If this Act does not receive the vote necessary for immediate effect, this Act takes effect September 1, 2017.

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President of the Senate Speaker of the House

I certify that H.B. No. 2647 was passed by the House on April 20, 2017, by the following vote: Yeas 144, Nays 0, 2 present, not voting.

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Chief Clerk of the House

I certify that H.B. No. 2647 was passed by the Senate on May 19, 2017, by the following vote: Yeas 31, Nays 0.

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Secretary of the Senate

APPROVED: _____

Date

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Governor

AN ACT

relating to including the obligations of Federal Home Loan Banks as authorized investments for a governmental entity and the requirements for certificates of deposit or share certificates held as authorized investments for a governmental entity.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF TEXAS:

SECTION 1. Section 2256.009(a), Government Code, is amended to read as follows:

(a) Except as provided by Subsection (b), the following are authorized investments under this subchapter:

(1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks;

(2) direct obligations of this state or its agencies and instrumentalities;

(3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States;

(4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, this state or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States;

(5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent; and

(6) bonds issued, assumed, or guaranteed by the State of Israel.

SECTION 2. Section 2256.010(a), Government Code, is amended to read as follows:

(a) A certificate of deposit or share certificate is an authorized investment under this subchapter if the certificate is issued by a depository institution that has its main office or a branch office in this state and is:

(1) guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Share Insurance Fund or its successor;

(2) secured by obligations that are described by Section 2256.009(a), including mortgage backed securities directly issued by a federal agency or instrumentality that have a market value of not less than the principal amount of the certificates, but excluding those mortgage backed securities of the nature described by Section 2256.009(b); or

(3) secured in accordance with Chapter 2257 or in any other manner and amount provided by law for deposits of the investing entity.

SECTION 3. The changes in law made by this Act apply to an authorized investment of public funds governed by Chapter 2256, Government Code, as amended by this Act, made on or after the effective date of this Act. An authorized investment of public funds made before the effective date of this Act is subject to the

law in effect on the date the investment was made, and the former law is continued in effect for that purpose.

SECTION 4. This Act takes effect September 1, 2017.

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President of the Senate Speaker of the House

I certify that H.B. No. 2928 was passed by the House on April 20, 2017, by the following vote: Yeas 144, Nays 0, 2 present, not voting.

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Chief Clerk of the House

I certify that H.B. No. 2928 was passed by the Senate on May 19, 2017, by the following vote: Yeas 31, Nays 0.

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Secretary of the Senate

APPROVED: _____

Date

_____

Governor

AN ACT

relating to investment prohibitions and divestment requirements for certain investments of public money.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF TEXAS:

SECTION 1. Section 404.024(b), Government Code, is amended to read as follows:

(b) Subject to Chapter 2270, state [~~State~~] funds not deposited in state depositories shall be invested by the comptroller in:

(1) direct security repurchase agreements;

(2) reverse security repurchase agreements;

(3) direct obligations of or obligations the principal and interest of which are guaranteed by the United States;

(4) direct obligations of or obligations guaranteed by agencies or instrumentalities of the United States government;

(5) bankers' acceptances that:

(A) are eligible for purchase by the Federal Reserve System;

(B) do not exceed 270 days to maturity; and

(C) are issued by a bank whose other comparable short-term obligations are rated in the highest short-term rating category, within which there may be subcategories or gradations indicating relative standing, including such subcategories or gradations as "rating category" or "rated," by a nationally recognized statistical rating organization, as defined by 15 U.S.C. Section 78c [~~Rule 2a-7 (17 C.F.R. Section 270.2a-7), promulgated under the Investment Company Act of 1940 by the Securities and Exchange Commission~~];

(6) commercial paper that:

(A) does not exceed 270 days to maturity; and

(B) except as provided by Subsection (i), is issued by an entity whose other comparable short-term obligations are rated in the highest short-term rating category by a nationally recognized statistical rating organization;

(7) contracts written by the treasury in which the treasury grants the purchaser the right to purchase securities in the treasury's marketable securities portfolio at a specified price over a specified period and for which the treasury is paid a fee and specifically prohibits naked-option or uncovered option trading;

(8) direct obligations of or obligations guaranteed by the Inter-American Development Bank, the International Bank for Reconstruction and Development (the World Bank), the African Development Bank, the Asian Development Bank, and the International Finance Corporation that have received the highest long-term rating categories for debt obligations by a nationally recognized statistical rating organization;

(9) bonds issued, assumed, or guaranteed by the State of Israel;

(10) obligations of a state or an agency, county, city, or other political subdivision of a state;

(11) mutual funds secured by obligations that are described by Subdivisions (1) through (6) or by obligations consistent with Rule 2a-7 (17 C.F.R. Section 270.2a-7), promulgated by the Securities and Exchange Commission, including pooled funds:

(A) established by the Texas Treasury

Safekeeping Trust Company;

(B) operated like a mutual fund; and

(C) with portfolios consisting only of dollar-denominated securities;

(12) foreign currency for the sole purpose of facilitating investment by state agencies that have the authority to invest in foreign securities;

(13) asset-backed securities, as defined by the Securities and Exchange Commission in Rule 2a-7 (17 C.F.R. Section 270.2a-7), that are rated at least A or its equivalent by a nationally recognized statistical rating organization and that have a weighted-average maturity of five years or less; and

(14) corporate debt obligations that are rated at least A or its equivalent by a nationally recognized statistical rating organization and mature in five years or less from the date on which the obligations were "acquired," as defined by the Securities and Exchange Commission in Rule 2a-7 (17 C.F.R. Section 270.2a-7).

SECTION 2. Section 2256.017, Government Code, is amended to read as follows:

Sec. 2256.017. EXISTING INVESTMENTS. Except as provided by Chapter 2270, an [~~An~~] entity is not required to liquidate investments that were authorized investments at the time of purchase.

SECTION 3. Section 2256.024(a), Government Code, is amended to read as follows:

(a) The authority granted by this subchapter is in addition to that granted by other law. Except as provided by Subsection (b) and Section 2256.017, this subchapter does not:

(1) prohibit an investment specifically authorized by other law; or

(2) authorize an investment specifically prohibited by other law.

SECTION 4. Chapter 806, Government Code, is transferred to Subtitle F, Title 10, Government Code, redesignated as Chapter 2270 of that subtitle, and amended to read as follows:

CHAPTER 2270 [~~806~~]. PROHIBITION ON INVESTING PUBLIC MONEY IN CERTAIN INVESTMENTS [~~INVESTMENT IN SUDAN~~]

SUBCHAPTER A. GENERAL PROVISIONS

Sec. 2270.0001 [~~806.001~~]. DEFINITIONS. In this chapter:

(1) "Active business operations" means all business operations that are not inactive business operations.

(2) [~~"Business operations" means engaging in commerce in any form in Sudan, including by acquiring, developing, maintaining, owning, selling, possessing, leasing, or operating equipment, facilities, personnel, products, services, personal property, real property, or any other apparatus of business or commerce.~~

[~~(3)~~] "Company" means a sole proprietorship, organization, association, corporation, partnership, joint venture, limited partnership, limited liability partnership, limited liability company, or other entity or business association whose securities are publicly traded, including a wholly owned subsidiary, majority-owned subsidiary, parent company, or affiliate of those entities or business associations, that exists to make a profit.

(3) "Designated foreign terrorist organization" means an organization designated as a foreign terrorist organization by the United States secretary of state as authorized by 8 U.S.C. Section 1189.

(4) [~~"Complicit" means taking actions that have directly supported or promoted the genocidal campaign in Darfur,~~

~~including:~~

[~~(A) – – preventing members of Darfur's victimized population from communicating with each other;~~

[~~(B) – – encouraging Sudanese citizens to speak out against an internationally approved security force for Darfur; or~~

[~~(C) – – actively working to deny, cover up, or alter the record on human rights abuses in Darfur.~~

[~~(5)~~] "Direct holdings" in a company[~~"~~] means all securities of that company held directly by an investing [~~a state governmental~~] entity in an account or fund in which an investing [~~a state governmental~~] entity owns all shares or interests.

(5) [~~(6) – – "Government of Sudan" means the government in Khartoum, Sudan, which is led by the National Congress Party, formerly known as the National Islamic Front, or any successor government formed on or after October 13, 2006, including the coalition National Unity Government agreed upon in the Comprehensive Peace Agreement for Sudan. – – The term does not include the regional government of southern Sudan.~~

[~~(7)~~] "Inactive business operations" means the mere continued holding or renewal of rights to property previously operated to generate revenue but not presently deployed to generate revenue.

(6) [~~(8)~~] "Indirect holdings" in a company[~~"~~] means all securities of that company held in an account or fund, such as a mutual fund, managed by one or more persons not employed by an investing [~~a state governmental~~] entity, in which the investing [~~state governmental~~] entity owns shares or interests together with other investors not subject to this chapter. The term does not include money invested under a plan described by Section 401(k) or 457 of the Internal Revenue Code of 1986.

(7) "Investing entity" means:

(A) an entity subject to Chapter 2256;

(B) the Employees Retirement System of Texas;

(C) the Teacher Retirement System of Texas; and

(D) the comptroller with respect to the comptroller's investment of state funds.

(8) [~~(9)~~] "Listed company" means a company listed by the comptroller under Section 2270.0201 [~~806.051~~].

(9) [~~(10) – – "Marginalized populations of Sudan" includes:~~

[~~(A) – – the portion of the population in the Darfur region that has been genocidally victimized;~~

[~~(B) – – the portion of the population of southern Sudan victimized by Sudan's North-South civil war;~~

[~~(C) – – the Beja, Rashidiya, and other similarly underserved groups of eastern Sudan;~~

[~~(D) – – the Nubian and other similarly underserved groups in Sudan's Abyei, Southern Blue Nile, and Nuba Mountain regions; and~~

[~~(E) – – the Amri, Hamadab, Manasir, and other similarly underserved groups of northern Sudan.~~

[~~(11) – – "Military equipment" means weapons, arms, military supplies, and equipment that readily may be used for military purposes, including radar systems or military-grade transport vehicles or supplies or services sold or provided directly or indirectly to any force actively participating in armed conflict in Sudan.~~

[~~(12) – – "Mineral extraction activities" includes exploring, extracting, processing, transporting, or wholesale selling or trading of elemental minerals or associated metal alloys or oxides (ore), including gold, copper, chromium, chromite, diamonds, iron, iron ore, silver, tungsten, uranium, and zinc, as~~

~~well as facilitating those activities, including by providing supplies or services in support of those activities.~~

[~~(13) "Oil-related activities" includes:~~

[~~(A) owning rights to oil blocks;~~

[~~(B) – – exporting, extracting, producing, refining, processing, exploring for, transporting, selling, or trading of oil;~~

[~~(C) – – constructing, maintaining, or operating a pipeline, refinery, or other oil-field infrastructure; or~~

[~~(D) – – facilitating oil-related activities, including by providing supplies or services in support of the activities, except that the mere retail sale of gasoline and related consumer products is not an oil-related activity.~~

[~~(14) – – "Power production activities" means any business operation that involves a project commissioned by the National Electricity Corporation of Sudan or another similar Government of Sudan entity whose purpose is to facilitate power generation and delivery, including establishing power-generating plants or hydroelectric dams, selling or installing components for the project, and providing service contracts related to the installation or maintenance of the project, as well as facilitating those activities, including by providing supplies or services in support of those activities.~~

[~~(15)~~] "Scrutinized company" means:

(A) a company that:

(i) [~~(A)~~] engages in scrutinized business operations described by Section 2270.0052 [~~806.002~~]; or

(ii) [~~(B)~~] has been complicit in the Darfur genocide during any preceding 20-month period;

(B) a company that engages in scrutinized business operations described by Section 2270.0102; and

(C) a company that engages in scrutinized business operations described by Section 2270.0152.

[~~(16) – – "Social development company" means a company whose primary purpose in Sudan is to provide humanitarian goods or services, including medicine or medical equipment, agricultural supplies or infrastructure, educational opportunities, journalism-related activities, information or information materials, spiritual-related activities, services of a purely clerical or reporting nature, food, clothing, or general consumer goods that are unrelated to oil-related activities, mineral extraction activities, or power production activities.~~

[~~(17) – – "State governmental entity" means the Employees Retirement System of Texas or the Teacher Retirement System of Texas.~~

[~~(18) – – "Substantial action" means adopting, publicizing, and implementing a formal plan to cease scrutinized business operations within one year and to refrain from any such new business operations, undertaking significant humanitarian efforts on behalf of one or more marginalized populations of Sudan, or, through engagement with the Government of Sudan, materially improving conditions for the genocidally victimized population in Darfur.~~]

Sec. 2270.0002 [~~806.002. – – SCRUTINIZED BUSINESS OPERATIONS. A company engages in scrutinized business operations if:~~

[~~(1) – – the company has business operations that involve contracts with or providing supplies or services to the Government of Sudan, a company in which the Government of Sudan has any direct or indirect equity share, a Government of Sudan-commissioned consortium or project, or a company involved in a Government of Sudan-commissioned consortium or project, and:~~

[~~(A) – – more than 10 percent of the company's~~

~~revenues or assets linked to Sudan involve oil-related activities or mineral extraction activities, less than 75 percent of the company's revenue or assets linked to Sudan involve contracts with or provision of oil-related or mineral extracting products or services to the regional government of southern Sudan or a project or consortium created exclusively by that regional government, and the company has failed to take substantial action; or~~

~~[(B) - - more than 10 percent of the company's revenue or assets linked to Sudan involve power production activities, less than 75 percent of the company's power production activities include projects whose intent is to provide power or electricity to the marginalized populations of Sudan, and the company has failed to take substantial action; or~~

~~[(2) - - the company supplies military equipment in Sudan, unless:~~

~~[(A) - - the company clearly shows that the military equipment cannot be used to facilitate offensive military actions in Sudan; or~~

~~[(B) - - the company implements rigorous and verifiable safeguards to prevent use of that equipment by forces actively participating in armed conflict, including:~~

~~[(i) - - using post-sale tracking of the equipment by the company;~~

~~[(ii) - - obtaining certification from a reputable and objective third party that the equipment is not being used by a party participating in armed conflict in Sudan; or~~

~~[(iii) - - selling the equipment solely to the regional government of southern Sudan or any internationally recognized peacekeeping force or humanitarian organization.~~

~~[Sec. - 806.003. - - SOCIAL DEVELOPMENT COMPANY. Notwithstanding any other law, a social development company that is not complicit in the Darfur genocide is not a scrutinized company.~~

[~~Sec. 806.004~~]. EXCEPTION. Notwithstanding any other law, a company that the United States government affirmatively declares to be excluded from its federal sanctions regime relating to Sudan, its federal sanctions regime relating to Iran, or any federal sanctions regime relating to a designated foreign terrorist organization is not subject to divestment or investment prohibition under this chapter.

Sec. 2270.0003 [~~806.005~~]. OTHER LEGAL OBLIGATIONS. With respect to actions taken in compliance with this chapter, including all good faith determinations regarding companies as required by this chapter, an investing [~~a state governmental~~] entity is exempt from any conflicting statutory or common law obligations, including any obligations with respect to making investments, divesting from any investment, preparing or maintaining any list of companies, or choosing asset managers, investment funds, or investments for the [~~state governmental~~] entity's securities portfolios.

Sec. 2270.0004. INAPPLICABILITY OF CERTAIN REQUIREMENTS INCONSISTENT WITH FIDUCIARY RESPONSIBILITIES AND RELATED DUTIES. An investing entity described by Section 2270.0001(7)(B) or (C) is not subject to a requirement of this chapter if the entity determines that the requirement would be inconsistent with the entity's fiduciary responsibility with respect to the investment of entity assets or other duties imposed by law relating to the investment of entity assets, including the duty of care established under Section 67, Article XVI, Texas Constitution.

Sec. 2270.0005. CONFLICT WITH OTHER LAW. To the extent of a conflict between this chapter and a provision of Chapter 404 or 2256 regarding an investing entity's investments, this chapter prevails.

Sec. 2270.0006 [~~806.006~~]. INDEMNIFICATION OF INVESTING

[~~STATE GOVERNMENTAL~~] ENTITIES, EMPLOYEES, AND OTHERS. In a cause of action based on an action, inaction, decision, divestment, investment, company communication, report, or other determination made or taken in connection with this chapter, the state shall, without regard to whether the person performed services for compensation, indemnify and hold harmless for actual damages, court costs, and attorney's fees adjudged against, and defend:

(1) an employee, a member of the governing body, or any other officer of an investing [~~a state governmental~~] entity;

(2) a contractor of an investing [~~a state governmental~~] entity;

(3) a former employee, a former member of the governing body, or any other former officer of an investing [~~a state governmental~~] entity who was an employee or officer when the act or omission on which the damages are based occurred; [~~and~~]

(4) a former contractor of an investing [~~a state governmental~~] entity who was a contractor when the act or omission on which the damages are based occurred; and

(5) an investing entity.

Sec. 2270.0007 [~~806.007~~]. NO PRIVATE CAUSE OF ACTION. (a) A person, including a member, retiree, and beneficiary of a retirement system to which this chapter applies, an association, a research firm, a company, or any other person may not sue or pursue a private cause of action against the state, an investing [~~a state governmental~~] entity, an employee, a member of the governing body, or any other officer of an investing [~~a state governmental~~] entity, or a contractor of an investing [~~a state governmental~~] entity, for any claim or cause of action, including breach of fiduciary duty, or for violation of any constitutional, statutory, or regulatory requirement in connection with any action, inaction, decision, divestment, investment, company communication, report, or other determination made or taken in connection with this chapter.

(b) A person who files suit against the state, an investing [~~a state governmental~~] entity, an employee, a member of the governing body, or any other officer of an investing [~~a state governmental~~] entity, or a contractor of an investing [~~a state governmental~~] entity, is liable for paying the costs and attorney's fees of a person sued in violation of this section.

Sec. 2270.0008. RELIANCE ON COMPANY RESPONSE. The comptroller in administering this chapter and an investing entity may rely on a company's response to a notice or communication made under this chapter without conducting any further investigation, research, or inquiry.

SUBCHAPTER B. GENERAL PROVISIONS RELATING TO INVESTMENTS IN SUDAN

Sec. 2270.0051. DEFINITIONS. In this subchapter:

(1) "Business operations" means engaging in commerce in any form in Sudan, including by acquiring, developing, maintaining, owning, selling, possessing, leasing, or operating equipment, facilities, personnel, products, services, personal property, real property, or any other apparatus of business or commerce.

(2) "Complicit" means taking actions that have directly supported or promoted the genocidal campaign in Darfur, including:

(A) preventing members of Darfur's victimized population from communicating with each other;

(B) encouraging Sudanese citizens to speak out against an internationally approved security force for Darfur; or

(C) actively working to deny, cover up, or alter the record on human rights abuses in Darfur.

(3) "Government of Sudan" means the government in Khartoum, Sudan, which is led by the National Congress Party,

formerly known as the National Islamic Front, or any successor government formed on or after October 13, 2006, including the coalition National Unity Government agreed upon in the Comprehensive Peace Agreement for Sudan. The term does not include the regional government of southern Sudan.

(4) "Marginalized populations of Sudan" includes:

(A) the portion of the population in the Darfur region that has been genocidally victimized;

(B) the portion of the population of southern Sudan victimized by Sudan's North-South civil war;

(C) the Beja, Rashidiya, and other similarly underserved groups of eastern Sudan;

(D) the Nubian and other similarly underserved groups in Sudan's Abyei, Southern Blue Nile, and Nuba Mountain regions; and

(E) the Amri, Hamadab, Manasir, and other similarly underserved groups of northern Sudan.

(5) "Military equipment" means weapons, arms, military supplies, and equipment that readily may be used for military purposes, including radar systems or military-grade transport vehicles or supplies or services sold or provided directly or indirectly to any force actively participating in armed conflict in Sudan.

(6) "Mineral extraction activities" includes exploring, extracting, processing, transporting, or wholesale selling or trading of elemental minerals or associated metal alloys or oxides (ore), including gold, copper, chromium, chromite, diamonds, iron, iron ore, silver, tungsten, uranium, and zinc, as well as facilitating those activities, including by providing supplies or services in support of those activities.

(7) "Oil-related activities" includes:

(A) owning rights to oil blocks;

(B) exporting, extracting, producing, refining, processing, exploring for, transporting, selling, or trading of oil;

(C) constructing, maintaining, or operating a pipeline, refinery, or other oil-field infrastructure; or

(D) facilitating oil-related activities, including by providing supplies or services in support of the activities, except that the mere retail sale of gasoline and related consumer products is not an oil-related activity.

(8) "Power production activities" means any business operation that involves a project commissioned by the National Electricity Corporation of Sudan or another similar government of Sudan entity whose purpose is to facilitate power generation and delivery, including establishing power-generating plants or hydroelectric dams, selling or installing components for the project, and providing service contracts related to the installation or maintenance of the project, as well as facilitating those activities, including by providing supplies or services in support of those activities.

(9) "Social development company" means a company whose primary purpose in Sudan is to provide humanitarian goods or services, including medicine or medical equipment, agricultural supplies or infrastructure, educational opportunities, journalism-related activities, information or information materials, spiritual-related activities, services of a purely clerical or reporting nature, food, clothing, or general consumer goods that are unrelated to oil-related activities, mineral extraction activities, or power production activities.

(10) "Substantial action" means adopting, publicizing, and implementing a formal plan to cease scrutinized

business operations within one year and to refrain from any such new business operations, undertaking significant humanitarian efforts on behalf of one or more marginalized populations of Sudan, or, through engagement with the government of Sudan, materially improving conditions for the genocidally victimized population in Darfur.

Sec. 2270.0052. SCRUTINIZED BUSINESS OPERATIONS IN SUDAN. A company engages in scrutinized business operations in Sudan if:

(1) the company has business operations that involve contracts with or providing supplies or services to the government of Sudan, a company in which the government of Sudan has any direct or indirect equity share, a government of Sudan-commissioned consortium or project, or a company involved in a government of Sudan-commissioned consortium or project and:

(A) more than 10 percent of the company's revenues or assets linked to Sudan involve oil-related activities or mineral extraction activities, less than 75 percent of the company's revenue or assets linked to Sudan involve contracts with or provision of oil-related or mineral extracting products or services to the regional government of southern Sudan or a project or consortium created exclusively by that regional government, and the company has failed to take substantial action; or

(B) more than 10 percent of the company's revenue or assets linked to Sudan involve power production activities, less than 75 percent of the company's power production activities include projects whose intent is to provide power or electricity to the marginalized populations of Sudan, and the company has failed to take substantial action; or

(2) the company supplies military equipment in Sudan, unless:

(A) the company clearly shows that the military equipment cannot be used to facilitate offensive military actions in Sudan; or

(B) the company implements rigorous and verifiable safeguards to prevent use of that equipment by forces actively participating in armed conflict, including:

(i) using post-sale tracking of the equipment by the company;

(ii) obtaining certification from a reputable and objective third party that the equipment is not being used by a party participating in armed conflict in Sudan; or

(iii) selling the equipment solely to the regional government of southern Sudan or any internationally recognized peacekeeping force or humanitarian organization.

Sec. 2270.0053. SOCIAL DEVELOPMENT COMPANY. Notwithstanding any other law, a social development company that is not complicit in the Darfur genocide is not a scrutinized company under Section 2270.0001(9)(A).

SUBCHAPTER C. GENERAL PROVISIONS RELATING TO INVESTMENTS IN IRAN

Sec. 2270.0101. DEFINITIONS. In this subchapter:

(1) "Business operations" means engaging in commerce in any form in Iran, including by acquiring, developing, maintaining, owning, selling, possessing, leasing, or operating equipment, facilities, personnel, products, services, personal property, real property, or any other apparatus of business or commerce.

(2) "Military equipment" means weapons, arms, military supplies, and equipment that readily may be used for military purposes, including radar systems and military-grade transport vehicles.

Sec. 2270.0102. SCRUTINIZED BUSINESS OPERATIONS IN IRAN. A company engages in scrutinized business operations in Iran if:

(1) the company has business operations that involve contracts with or providing supplies or services to the government of Iran, a company in which the government of Iran has any direct or indirect equity share, a consortium or project commissioned by the government of Iran, or a company involved in a consortium or project commissioned by the government of Iran; or

(2) the company supplies military equipment to Iran.

SUBCHAPTER D. GENERAL PROVISIONS RELATING TO INVESTMENTS IN CERTAIN FOREIGN TERRORIST ORGANIZATIONS

Sec. 2270.0151. DEFINITIONS. In this subchapter:

(1) "Business operations" means engaging in commerce in any form, including by acquiring, developing, maintaining, owning, selling, possessing, leasing, or operating equipment, facilities, personnel, products, services, personal property, real property, or any other apparatus of business or commerce.

(2) "Terroristic equipment" means weapons, arms, military supplies, and equipment that readily may be used for terroristic purposes or activities.

Sec. 2270.0152. SCRUTINIZED BUSINESS OPERATIONS WITH DESIGNATED FOREIGN TERRORIST ORGANIZATION. A company engages in scrutinized business operations with a designated foreign terrorist organization if:

(1) the company has business operations that involve:

(A) a contract with or providing supplies or services to a designated foreign terrorist organization;

(B) a company in which a designated foreign terrorist organization has any direct or indirect equity share;

(C) a consortium or project commissioned by a designated foreign terrorist organization; or

(D) a company involved in a consortium or project commissioned by a designated foreign terrorist organization; or

(2) the company supplies terroristic equipment to a designated foreign terrorist organization.

Sec. 2270.0153. LIST OF DESIGNATED FOREIGN TERRORIST ORGANIZATIONS. (a) The comptroller shall prepare and maintain a list of designated foreign terrorist organizations.

(b) The comptroller shall maintain the list by updating the list as necessary to reflect changes in the list of foreign organizations designated as foreign terrorist organizations by the United States secretary of state as authorized by 8 U.S.C. Section 1189.

(c) Not later than the 30th day after the date the comptroller first prepares or updates the list of designated foreign terrorist organizations as required by this section, the comptroller shall:

(1) file the list with the presiding officer of each house of the legislature and the attorney general; and

(2) post the list on the comptroller's Internet website.

SUBCHAPTER E [~~B~~]. DUTIES REGARDING INVESTMENTS

Sec. 2270.0201 [~~806.051~~]. LISTED COMPANIES. (a) The comptroller shall prepare and maintain[~~, and provide to each state governmental entity,~~] a list of all scrutinized companies. The list must be categorized according to:

(1) companies that are scrutinized companies under Section 2270.0001(9)(A);

(2) companies that are scrutinized companies under Section 2270.0001(9)(B); and

(3) companies that are scrutinized companies under Section 2270.0001(9)(C).

(b) In maintaining the list of scrutinized companies under Subsection (a), the comptroller may review and rely, as appropriate

in the comptroller's judgment, on publicly available information regarding companies with business operations in Sudan, in Iran, or with designated foreign terrorist organizations, as applicable, including information provided by the state, nonprofit organizations, research firms, international organizations, and governmental entities.

(c) [~~(b)~~] The comptroller shall update the list of scrutinized companies under Subsection (a) annually or more often as the comptroller considers necessary, but not more often than quarterly, based on information from, among other sources, those listed in Subsection (b) [~~(a)~~].

(d) The comptroller shall:

(1) provide each list prepared or updated under this section to each investing entity; and

(2) post each list on the comptroller's Internet website.

(e) [~~(c)~~] Not later than the 30th day after the date a [~~the~~] list of scrutinized companies is [~~first~~] provided [~~or updated~~], the comptroller shall file the list of scrutinized companies with the presiding officer of each house of the legislature and the attorney general.

(f) For purposes of the prohibitions and duties under this chapter, the date the comptroller posts on the comptroller's Internet website a list of scrutinized companies under this section is considered the date the comptroller receives notice of the list.

Sec. 2270.0202 [~~806.052~~]. IDENTIFICATION OF INVESTMENT IN LISTED COMPANIES. Not later than the 30th day after the date an investing [~~a state governmental~~] entity receives a [~~the~~] list provided under Section 2270.0201 [~~806.051~~], the [~~state governmental~~] entity shall notify the comptroller of the listed companies in which the [~~state governmental~~] entity owns direct or indirect holdings.

Sec. 2270.0203 [~~806.053~~]. NOTICE TO LISTED COMPANY ENGAGED IN INACTIVE BUSINESS OPERATIONS. For each listed company identified under Section 2270.0202 [~~806.052~~] that is engaged in only inactive scrutinized business operations, the investing [~~state governmental~~] entity shall send a written notice informing the company of this chapter and encouraging the company to continue to refrain from initiating active business operations in Sudan, in Iran, and with designated foreign terrorist organizations until it is able to avoid being considered a listed company. The investing [~~state governmental~~] entity shall continue the correspondence as the entity considers necessary, but is not required to initiate correspondence more often than semiannually.

Sec. 2270.0204 [~~806.054~~]. ACTIONS RELATING TO LISTED COMPANY ENGAGED IN ACTIVE BUSINESS OPERATIONS. (a) For each listed company identified under Section 2270.0202 [~~806.052~~] that is engaged in scrutinized active business operations, the investing [~~state governmental~~] entity shall send a written notice informing the company of its listed company status and warning the company that it may become subject to divestment by investing [~~state governmental~~] entities.

(b) The notice shall offer the company the opportunity to clarify its Sudan-related, Iran-related, or designated foreign terrorist organization-related activities, as applicable, and shall encourage the company, not later than the 90th day after the date the company receives notice under this section, to either cease all [~~its~~] scrutinized business operations as described by Sections 2270.0052, 2270.0102, and 2270.0152, or convert such operations to inactive business operations in order to avoid qualifying for divestment by investing [~~state governmental~~] entities.

(c) If, during the time provided by Subsection (b), the company ceases scrutinized business operations described by that subsection, the comptroller shall remove the company from the list of scrutinized companies and this chapter will no longer apply to the company unless it resumes scrutinized business operations.

(d) If, during the time provided by Subsection (b), the company converts its scrutinized active business operations to inactive business operations, the company is subject to all provisions of this chapter relating to inactive business operations.

(e) If, after the time provided by Subsection (b) expires, the listed company continues to have scrutinized active business operations, the investing [~~state governmental~~] entity shall sell, redeem, divest, or withdraw all publicly traded securities of the company, except securities described by Section 2270.0207 [~~806.057~~], according to the schedule provided by Section 2270.0206 [~~806.056~~].

Sec. 2270.0205 [~~806.055~~]. ACTIONS RELATING TO LISTED COMPANY COMPLICIT IN GENOCIDE. (a) In this section, "complicit" has the meaning assigned by Section 2270.0051.

(b) For each company identified under Section 2270.0202 [~~806.052~~] that has been complicit, the investing [~~state governmental~~] entity shall send a written notice informing the company of its listed company status and warning the company that it may become subject to divestment by the investing [~~state governmental~~] entity.

(c) [~~(b)~~] The notice must require the listed company to refrain from taking any further action that would make it complicit.

(d) [~~(c)~~] If, after receiving the notice under Subsection (b) [~~(a)~~], the listed company takes additional action that makes the company complicit, the investing [~~state governmental~~] entity shall sell, redeem, divest, or withdraw all publicly traded securities of the company, except securities described by Section 2270.0207 [~~806.057~~], according to the schedule provided by Section 2270.0206 [~~806.056~~].

Sec. 2270.0206 [~~806.056~~]. DIVESTMENT OF ASSETS. (a) An investing [~~A state governmental~~] entity required to sell, redeem, divest, or withdraw all publicly traded securities of a listed company shall comply with the following schedule:

(1) at least 50 percent of those assets shall be removed from the investing [~~state governmental~~] entity's assets under management not later than the 270th day after the date the company receives notice under Section 2270.0204 [~~806.054~~] or 2270.0205 [~~806.055~~] or Subsection (b); and

(2) 100 percent of those assets shall be removed from the investing [~~state governmental~~] entity's assets under management not later than the 450th day after the date the company receives notice under Section 2270.0204 [~~806.054~~] or 2270.0205 [~~806.055~~] or Subsection (b).

(b) If a company that ceased scrutinized active business operations after receiving notice under Section 2270.0204 [~~806.054~~] resumes scrutinized active business operations, the investing [~~state governmental~~] entity shall send a written notice to the company informing it that the [~~state governmental~~] entity will sell, redeem, divest, or withdraw all publicly traded securities of the scrutinized company according to the schedule in Subsection (a).

(c) An investing [~~A state governmental~~] entity may delay the schedule for divestment under Subsection (a) only to the extent that the [~~state governmental~~] entity determines, in the [~~state governmental~~] entity's good faith judgment, that divestment from

listed companies will likely result in a loss in value described by Section 2270.0208(a) [~~806.058(a)~~]. If the [~~a state governmental~~] entity delays the schedule for divestment, the [~~state governmental~~] entity shall submit a report to the presiding officer of each house of the legislature and the attorney general stating the reasons and justification for the [~~state governmental~~] entity's delay in divestment from listed companies. The report must include documentation supporting its determination that the divestment would result in a loss in value described by Section 2270.0208(a) [~~806.058(a)~~], including objective numerical estimates. The investing [~~state governmental~~] entity shall update the report every six months.

Sec. 2270.0207 [~~806.057~~]. INVESTMENTS EXEMPTED FROM DIVESTMENT. An investing [~~A state governmental~~] entity is not required to divest from any indirect holdings in actively managed investment funds or private equity funds. The investing [~~state governmental~~] entity shall submit letters to the managers of investment funds containing listed companies requesting that they consider removing those companies from the fund or create a similar actively managed fund with indirect holdings devoid of listed companies. If the manager creates a similar fund with substantially the same management fees and same level of investment risk, the investing [~~state governmental~~] entity shall replace all applicable investments with investments in the similar fund in an expedited time frame consistent with prudent fiduciary standards.

Sec. 2270.0208 [~~806.058~~]. AUTHORIZED INVESTMENT IN LISTED COMPANIES. (a) An investing [~~A state governmental~~] entity may cease divesting from or may reinvest in one or more listed companies if clear and convincing evidence shows that the value for all assets under management by the [~~state governmental~~] entity becomes equal to or less than 99.7 percent of the hypothetical value of all assets under management by the [~~state governmental~~] entity had the [~~state governmental~~] entity not divested from listed companies under this chapter.

(b) An investing [~~A state governmental~~] entity may invest in a listed company as provided by this section only to the extent necessary to ensure that the value of the assets managed by the [~~state governmental~~] entity does not fall below the value described by Subsection (a).

(c) Before an investing [~~a state governmental~~] entity may invest in a listed company under this section, the [~~state governmental~~] entity must provide a written report to the presiding officer of each house of the legislature and the attorney general setting forth the reason and justification, supported by clear and convincing evidence, for its decisions to cease divestment, to reinvest, or to remain invested in a listed company.

(d) The investing [~~state governmental~~] entity shall update the report required by Subsection (c) semiannually, as applicable.

(e) This section does not apply to reinvestment in a company that has ceased to be a listed company.

Sec. 2270.0209 [~~806.059~~]. PROHIBITED INVESTMENTS. Except as provided by Sections 2270.0002 [~~806.004~~] and 2270.0208 [~~806.058~~], an investing [~~a state governmental~~] entity may not acquire securities of a listed company.

SUBCHAPTER F [~~C~~]. EXPIRATION; REPORT; ENFORCEMENT

Sec. 2270.0251 [~~806.101~~]. EXPIRATION OF CHAPTER. This chapter expires September 1, 2037 [~~on the earliest of:~~

[~~(1) the date on which the United States Congress or the president of the United States declares that the Darfur genocide has been halted for at least 12 months;~~

[~~(2) the date on which the United States revokes its sanctions against the Government of Sudan; or~~

[~~(3) – – the date on which the United States Congress or the president of the United States, through legislation or executive order, declares that mandatory divestment of the type provided for in this chapter interferes with the conduct of United States foreign policy~~].

Sec. 2270.0252 [~~806.102~~]. REPORT. Not later than December 31 of each year, each investing [~~state governmental~~] entity shall:

(1) file a publicly available report with the presiding officer of each house of the legislature and[~~,~~] the attorney general[~~, and the United States presidential special envoy to Sudan~~] that:

(A) [~~(1)~~] identifies all investments sold, redeemed, divested, or withdrawn in compliance with Section 2270.0206 [~~806.056~~];

(B) [~~(2)~~] identifies all prohibited investments under Section 2270.0209 [~~806.059~~]; and

(C) [~~(3)~~] summarizes any changes made under Section 2270.0207; and

(2) file a report with the United States presidential special envoy to Sudan that identifies investments in Sudan identified in the report as required by Subdivisions (1)(A) and (B) and summarizes any changes made under Section 2270.0207 related to those investments [~~806.057~~].

Sec. 2270.0253 [~~806.103~~]. ENFORCEMENT. The attorney general may bring any action necessary to enforce this chapter.

SECTION 5. Chapter 807, Government Code, is repealed.

SECTION 6. (a) On the effective date of this Act, all powers, duties, and functions of the State Pension Review Board under Chapter 807, Government Code, as repealed by this Act, are transferred to the comptroller of public accounts.

(b) All of the following that relate to a power, duty, or function transferred under Subsection (a) of this section are transferred to the comptroller of public accounts on the effective date of this Act:

(1) all obligations and contracts;

(2) all property and records in the custody of the State Pension Review Board;

(3) all funds appropriated by the legislature and other money;

(4) all complaints, investigations, or contested cases that are pending before the State Pension Review Board, without change in status; and

(5) all necessary personnel.

(c) A rule, policy, or form adopted by or on behalf of the State Pension Review Board that relates to a power, duty, or function transferred under Subsection (a) of this section becomes a rule, policy, or form of the comptroller of public accounts on the transfer of the related power, duty, or function and remains in effect:

(1) until altered by the comptroller of public accounts; or

(2) unless it conflicts with a rule, policy, or form of the comptroller of public accounts.

(d) An action brought or proceeding commenced before the date of a transfer under this section, including a contested case or a remand of an action or proceeding by a reviewing court, is governed by the laws and rules applicable to the action or proceeding before the transfer.

SECTION 7. Not later than September 1, 2017, the comptroller of public accounts shall prepare the initial list of designated foreign terrorist organizations as required by Section 2270.0153, Government Code, as added by this Act.

SECTION 8. Not later than October 1, 2017, the comptroller of public accounts shall:

(1) prepare an updated list of scrutinized companies required by Section 2270.0201, Government Code, as added by this Act;

(2) provide the list to each investing entity, as defined by Section 2270.0001, Government Code, as added by this Act; and

(3) post the list on the comptroller's Internet website.

SECTION 9. This Act takes effect immediately if it receives a vote of two-thirds of all the members elected to each house, as provided by Section 39, Article III, Texas Constitution. If this Act does not receive the vote necessary for immediate effect, this Act takes effect on the 91st day after the last day of the legislative session.

_____ _____

President of the Senate Speaker of the House

I hereby certify that S.B. No. 253 passed the Senate on April 19, 2017, by the following vote: Yeas 31, Nays 0.

_____

Secretary of the Senate

I hereby certify that S.B. No. 253 passed the House on May 9, 2017, by the following vote: Yeas 144, Nays 1, two present not voting.

_____

Chief Clerk of the House

Approved:

_____

Date

_____

Governor

APPENDIX C

PUBLIC FUNDS-PRIMARY LAWS AND REGULATIONS
PUBLIC FUNDS COLLATERAL ACT

GOVERNMENT CODE

TITLE 10. GENERAL GOVERNMENT

SUBTITLE F. STATE AND LOCAL CONTRACTS AND FUND MANAGEMENT

CHAPTER 2257. COLLATERAL FOR PUBLIC FUNDS

SUBCHAPTER A. GENERAL PROVISIONS

Sec. 2257.001. SHORT TITLE. This chapter may be cited as the Public Funds Collateral Act.

Added by Acts 1993, 73rd Leg., ch. 268, Sec. 1, eff. Sept. 1, 1993.

Sec. 2257.002. DEFINITIONS. In this chapter:

(1) "Bank holding company" has the meaning assigned by Section 31.002(a), Finance Code.

(2) "Control" has the meaning assigned by Section 31.002(a), Finance Code.

(3) "Deposit of public funds" means public funds of a public entity that:

(A) the comptroller does not manage under Chapter 404; and

(B) are held as a demand or time deposit by a depository institution expressly authorized by law to accept a public entity's demand or time deposit.

(4) "Eligible security" means:

(A) a surety bond;

(B) an investment security;

(C) an ownership or beneficial interest in an investment security, other than an option contract to purchase or sell an investment security;

(D) a fixed-rate collateralized mortgage obligation that has an expected weighted average life of 10 years or less and does not constitute a high-risk mortgage security;

(E) a floating-rate collateralized mortgage obligation that does not constitute a high-risk mortgage security; or

(F) a letter of credit issued by a federal home loan bank.

(5) "Investment security" means:

(A) an obligation that in the opinion of the attorney general of the United States is a general obligation of the United States and backed by its full faith and credit;

(B) a general or special obligation issued by a public agency that is payable from taxes, revenues, or a combination of taxes and revenues; or

(C) a security in which a public entity may invest under Subchapter A, Chapter 2256.

(6) "Permitted institution" means:

(A) a Federal Reserve Bank;

(B) a clearing corporation, as defined by Section 8.102, Business & Commerce Code;

(C) a bank eligible to be a custodian under Section 2257.041; or

(D) a state or nationally chartered bank that is controlled by a bank holding company that controls a bank eligible to be a custodian under Section 2257.041.

(7) "Public agency" means a state or a political or governmental entity, agency, instrumentality, or subdivision of a state, including a municipality, an institution of higher education, as defined by Section 61.003, Education Code, a junior college, a district created under Article XVI, Section 59, of the Texas Constitution, and a public hospital.

(8) "Public entity" means a public agency in this state, but does not include an institution of higher education, as defined by Section 61.003, Education Code.

(9) "State agency" means a public entity that:

(A) has authority that is not limited to a geographic portion of the state; and

(B) was created by the constitution or a statute.

(10) "Trust receipt" means evidence of receipt, identification, and recording, including:

(A) a physical controlled trust receipt; or

(B) a written or electronically transmitted advice of transaction.

Added by Acts 1993, 73rd Leg., ch. 268, Sec. 1, eff. Sept. 1, 1993. Amended by Acts 1995, 74th Leg., ch. 76, Sec. 5.48(a), eff. Sept. 1, 1995; Acts 1995, 74th Leg., ch. 914, Sec. 5, eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 254, Sec. 1, eff. Sept. 1, 1997; Acts 1997, 75th Leg., ch. 891, Sec. 3.22(4), eff. Sept. 1, 1997; Acts 1997, 75th Leg., ch. 1423, Sec. 8.70, eff. Sept. 1, 1997; Acts 1999, 76th Leg., ch. 62, Sec. 7.63, eff. Sept. 1, 1999.
Amended by:

Acts 2011, 82nd Leg., R.S., Ch. 783 (H.B. 2103), Sec. 1, eff. June 17, 2011.

Sec. 2257.0025. HIGH-RISK MORTGAGE SECURITY. (a) For purposes of this chapter, a fixed-rate collateralized mortgage obligation is a high-risk mortgage security if the security:

(1) has an average life sensitivity with a weighted average life that:

(A) extends by more than four years, assuming an immediate and sustained parallel shift in the yield curve of plus 300 basis points; or

(B) shortens by more than six years, assuming an immediate and sustained parallel shift in the yield curve of minus 300 basis points; and

(2) is price sensitive; that is, the estimated change in the price of the mortgage derivative product is more than 17 percent, because of an immediate and sustained parallel shift in the yield curve of plus or minus 300 basis points.

(b) For purposes of this chapter, a floating-rate collateralized mortgage obligation is a high-risk mortgage security if the security:

(1) bears an interest rate that is equal to the contractual cap on the instrument; or

(2) is price sensitive; that is, the estimated change in the price of the mortgage derivative product is more than 17 percent, because of an immediate and sustained parallel shift in the yield curve of plus or minus 300 basis points.

Added by Acts 1997, 75th Leg., ch. 254, Sec. 2, eff. Sept. 1, 1997.

Sec. 2257.003. CHAPTER NOT APPLICABLE TO DEFERRED COMPENSATION PLANS. This chapter does not apply to funds that a public entity maintains or administers under a deferred compensation plan, the federal income tax treatment of which is governed by Section 401(k) or 457 of the Internal Revenue Code of 1986 (26 U.S.C. Sections 401 (k) and 457).

Added by Acts 1993, 73rd Leg., ch. 268, Sec. 1, eff. Sept. 1, 1993.

Sec. 2257.004. CONFLICT WITH OTHER LAW. This chapter prevails over any other law relating to security for a deposit of public funds to the extent of any conflict.

Added by Acts 1993, 73rd Leg., ch. 268, Sec. 1, eff. Sept. 1, 1993.

Sec. 2257.005. CONTRACT GOVERNS LEGAL ACTION. A legal action brought by or against a public entity that arises out of or in connection with the duties of a depository, custodian, or permitted institution under this chapter must be brought and maintained as provided by the contract with the public entity.

Added by Acts 1993, 73rd Leg., ch. 268, Sec. 1, eff. Sept. 1, 1993.

SUBCHAPTER B. DEPOSITORY; SECURITY FOR DEPOSIT OF PUBLIC FUNDS

Sec. 2257.021. COLLATERAL REQUIRED. A deposit of public funds shall be secured by eligible security to the extent and in the manner required by this chapter.

Added by Acts 1993, 73rd Leg., ch. 268, Sec. 1, eff. Sept. 1, 1993.

Sec. 2257.022. AMOUNT OF COLLATERAL. (a) Except as provided by Subsection (b), the total value of eligible security to secure a deposit of public funds must be in an amount not less than the amount of the deposit of public funds:

(1) increased by the amount of any accrued interest; and

(2) reduced to the extent that the United States or an instrumentality of the United States insures the deposit.

(b) The total value of eligible security described by Section 45.201(4)(D), Education Code, to secure a deposit of public funds of a school district must be in an amount not less than 110 percent of the amount of the deposit as determined under Subsection (a). The total market value of the eligible security must be reported at least once each month to the school district.

(c) The value of a surety bond is its face value.

(d) The value of an investment security is its market value.

Added by Acts 1993, 73rd Leg., ch. 268, Sec. 1, eff. Sept. 1, 1993. Amended by Acts 2003, 78th Leg., ch. 201, Sec. 46, eff. Sept. 1, 2003.

Sec. 2257.023. COLLATERAL POLICY. (a) In accordance with a written policy approved by the governing body of the public entity, a public entity shall determine if an investment security is eligible to secure deposits of public funds.

(b) The written policy may include:

(1) the security of the institution that obtains or holds an investment security;

(2) the substitution or release of an investment security; and

(3) the method by which an investment security used to secure a deposit of public funds is valued.

Added by Acts 1993, 73rd Leg., ch. 268, Sec. 1, eff. Sept. 1, 1993.

Sec. 2257.024. CONTRACT FOR SECURING DEPOSIT OF PUBLIC FUNDS. (a) A public entity may contract with a bank that has its main office or a branch office in this state to secure a deposit of public funds.

(b) The contract may contain a term or condition relating to an investment security used as security for a deposit of public funds, including a term or condition relating to the:

(1) possession of the collateral;

(2) substitution or release of an investment security;

(3) ownership of the investment securities of the bank used to secure a deposit of public funds; and

(4) method by which an investment security used to secure a deposit of public funds is valued.

Added by Acts 1993, 73rd Leg., ch. 268, Sec. 1, eff. Sept. 1, 1993. Amended by Acts 1999, 76th Leg., ch. 344, Sec. 5.006, eff. Sept. 1, 1999.

Sec. 2257.025. RECORDS OF DEPOSITORY. (a) A public entity's depository shall maintain a separate, accurate, and complete record relating to a pledged investment security, a deposit of public funds, and a transaction related to a pledged investment security.

(b) The comptroller or the public entity may examine and verify at any reasonable time a pledged investment security or a record a depository maintains under this section.

Added by Acts 1993, 73rd Leg., ch. 268, Sec. 1, eff. Sept. 1, 1993. Amended by Acts 1997, 75th Leg., ch. 891, Sec. 3.16, eff. Sept. 1, 1997.

Sec. 2257.026. CHANGE IN AMOUNT OR ACTIVITY OF DEPOSITS OF PUBLIC FUNDS. A public entity shall inform the depository for the public entity's deposit of public funds of a significant change in the amount or activity of those deposits within a reasonable time before the change occurs.

Added by Acts 1993, 73rd Leg., ch. 268, Sec. 1, eff. Sept. 1, 1993.

SUBCHAPTER C. CUSTODIAN; PERMITTED INSTITUTION

Sec. 2257.041. DEPOSIT OF SECURITIES WITH CUSTODIAN. (a) In addition to other authority granted by law, a depository for a public entity other than a state agency may deposit with a custodian a security pledged to secure a deposit of public funds.

(b) At the request of the public entity, a depository for a public entity other than a state agency shall deposit with a custodian a security pledged to secure a deposit of public funds.

(c) A depository for a state agency shall deposit with a custodian a security pledged to secure a deposit of public funds.

The custodian and the state agency shall agree in writing on the terms and conditions for securing a deposit of public funds.

(d) A custodian must be approved by the public entity and be:

(1) a state or national bank that:

(A) is designated by the comptroller as a state depository;

(B) has its main office or a branch office in this state; and

(C) has a capital stock and permanent surplus of $5 million or more;

(2) the Texas Treasury Safekeeping Trust Company;

(3) a Federal Reserve Bank or a branch of a Federal Reserve Bank;

(4) a federal home loan bank; or

(5) a financial institution authorized to exercise fiduciary powers that is designated by the comptroller as a custodian pursuant to Section 404.031(e).

(e) A custodian holds in trust the securities to secure the deposit of public funds of the public entity in the depository pledging the securities.

Added by Acts 1993, 73rd Leg., ch. 268, Sec. 1, eff. Sept. 1, 1993. Amended by Acts 1995, 74th Leg., ch. 1010, Sec. 1, eff. June 17, 1995; Acts 1997, 75th Leg., ch. 891, Sec. 3.17, eff. Sept. 1, 1997; Acts 1999, 76th Leg., ch. 344, Sec. 5.007, eff. Sept. 1, 1999. Amended by:

Acts 2009, 81st Leg., R.S., Ch. 486 (S.B. 638), Sec. 3, eff. September 1, 2009.

Sec. 2257.042. DEPOSIT OF SECURITIES WITH PERMITTED INSTITUTION. (a) A custodian may deposit with a permitted institution an investment security the custodian holds under Section 2257.041.

(b) If a deposit is made under Subsection (a):

(1) the permitted institution shall hold the investment security to secure funds the public entity deposits in the depository that pledges the investment security;

(2) the trust receipt the custodian issues under Section 2257.045 shall show that the custodian has deposited the security in a permitted institution; and

(3) the permitted institution, on receipt of the investment security, shall immediately issue to the custodian an advice of transaction or other document that is evidence that the custodian deposited the security in the permitted institution.

Added by Acts 1993, 73rd Leg., ch. 268, Sec. 1, eff. Sept. 1, 1993.

Sec. 2257.043. DEPOSITORY AS CUSTODIAN OR PERMITTED INSTITUTION. (a) A public entity other than a state agency may prohibit a depository or an entity of which the depository is a branch from being the custodian of or permitted institution for a security the depository pledges to secure a deposit of public funds.

(b) A depository or an entity of which the depository is a branch may not be the custodian of or permitted institution for a security the depository pledges to secure a deposit of public funds by a state agency.

Added by Acts 1993, 73rd Leg., ch. 268, Sec. 1, eff. Sept. 1, 1993.

Sec. 2257.044. CUSTODIAN AS BAILEE. (a) A custodian under this chapter or a custodian of a security pledged to an institution of higher education, as defined by Section 61.003, Education Code, whether acting alone or through a permitted institution, is for all purposes the bailee or agent of the public entity or institution depositing the public funds with the depository.

(b) To the extent of any conflict, Subsection (a) prevails over Chapter 8 or 9, Business & Commerce Code.

Added by Acts 1993, 73rd Leg., ch. 268, Sec. 1, eff. Sept. 1, 1993.

Sec. 2257.045. RECEIPT OF SECURITY BY CUSTODIAN. (a) On receipt of an investment security, a custodian shall immediately identify on its books and records, by book entry or another method, the pledge of the security to the public entity.

(b) For a deposit of public funds under Subchapter F, the custodian shall issue and deliver to the comptroller a trust receipt for the pledged security.

(c) For any other deposit of public funds under this chapter, at the written direction of the appropriate public entity officer, the custodian shall:

(1) issue and deliver to the appropriate public entity officer a trust receipt for the pledged security; or

(2) issue and deliver a trust receipt for the pledged security to the public entity's depository and instruct the depository to deliver the trust receipt to the public entity officer immediately.

(d) The custodian shall issue and deliver the trust receipt as soon as practicable on the same business day on which the investment security is received.

Added by Acts 1993, 73rd Leg., ch. 268, Sec. 1, eff. Sept. 1, 1993. Amended by:

Acts 2013, 83rd Leg., R.S., Ch. 434 (S.B. 581), Sec. 1, eff. June 14, 2013.

Sec. 2257.046. BOOKS AND RECORDS OF CUSTODIAN; INSPECTION. (a) A public entity's custodian shall maintain a separate, accurate, and complete record relating to each pledged investment security and each transaction relating to a pledged investment security.

(b) The comptroller or the public entity may examine and verify at any reasonable time a pledged investment security or a record a custodian maintains under this section. The public entity or its agent may inspect at any time an investment security evidenced by a trust receipt.

(c) The public entity's custodian shall file a collateral report with the comptroller in the manner and on the dates prescribed by the comptroller.

(d) At the request of the appropriate public entity officer, the public entity's custodian shall provide a current list of all pledged investment securities. The list must include, for each pledged investment security:

(1) the name of the public entity;

(2) the date the security was pledged to secure the public entity's deposit;

(3) the Committee on Uniform Security Identification Procedures (CUSIP) number of the security;

(4) the face value and maturity date of the security; and

(5) the confirmation number on the trust receipt issued by the custodian.

Added by Acts 1993, 73rd Leg., ch. 268, Sec. 1, eff. Sept. 1, 1993. Amended by Acts 1997, 75th Leg., ch. 891, Sec. 3.18, eff. Sept. 1, 1997.

Amended by:

Acts 2013, 83rd Leg., R.S., Ch. 434 (S.B. 581), Sec. 2, eff. June 14, 2013.

Sec. 2257.047. BOOKS AND RECORDS OF PERMITTED INSTITUTION. (a) A permitted institution may apply book entry procedures when an investment security held by a custodian is deposited under Section 2257.042.

(b) A permitted institution's records must at all times state the name of the custodian that deposits an investment security in the permitted institution.

Added by Acts 1993, 73rd Leg., ch. 268, Sec. 1, eff. Sept. 1, 1993.

Sec. 2257.048. ATTACHMENT AND PERFECTION OF SECURITY INTEREST. (a) A security interest that arises out of a depository's pledge of a security to secure a deposit of public funds by a public entity or an institution of higher education, as defined by Section 61.003, Education Code, is created, attaches, and is perfected for all purposes under state law from the time that the custodian identifies the pledge of the security on the custodian's books and records and issues the trust receipt.

(b) A security interest in a pledged security remains perfected in the hands of a subsequent custodian or permitted institution.

Added by Acts 1993, 73rd Leg., ch. 268, Sec. 1, eff. Sept. 1, 1993.

SUBCHAPTER D. AUDITS AND EXAMINATIONS; PENALTIES

Sec. 2257.061. AUDITS AND EXAMINATIONS. As part of an audit or regulatory examination of a public entity's depository or custodian, the auditor or examiner shall:

(1) examine and verify pledged investment securities and records maintained under Section 2257.025 or 2257.046; and

(2) report any significant or material noncompliance with this chapter to the comptroller.

Added by Acts 1993, 73rd Leg., ch. 268, Sec. 1, eff. Sept. 1, 1993. Amended by Acts 1997, 75th Leg., ch. 891, Sec. 3.19, eff. Sept. 1, 1997.

Sec. 2257.062. PENALTIES. (a) The comptroller may revoke a depository's designation as a state depository for one year if, after notice and a hearing, the comptroller makes a written finding that the depository, while acting as either a depository or a custodian:

(1) did not maintain reasonable compliance with this chapter; and

(2) failed to remedy a violation of this chapter within a reasonable time after receiving written notice of the violation.

(b) The comptroller may permanently revoke a depository's designation as a state depository if the comptroller makes a written finding that the depository:

(1) has not maintained reasonable compliance with this chapter; and

(2) has acted in bad faith by not remedying a violation of this chapter.

Added by Acts 1993, 73rd Leg., ch. 268, Sec. 1, eff. Sept. 1, 1993. Amended by Acts 1997, 75th Leg., ch. 891, Sec. 3.19, eff. Sept. 1, 1997.

Sec. 2257.063. MITIGATING CIRCUMSTANCES. (a) The comptroller shall consider the total circumstances relating to the performance of a depository or custodian when the comptroller makes a finding required by Section 2257.062, including the extent to which the noncompliance is minor, isolated, temporary, or nonrecurrent.

(b) The comptroller may not find that a depository or custodian did not maintain reasonable compliance with this chapter if the noncompliance results from the public entity's failure to comply with Section 2257.026.

(c) This section does not relieve a depository or custodian of the obligation to secure a deposit of public funds with eligible security in the amount and manner required by this chapter within a reasonable time after the public entity deposits the deposit of public funds with the depository.

Added by Acts 1993, 73rd Leg., ch. 268, Sec. 1, eff. Sept. 1, 1993. Amended by Acts 1997, 75th Leg., ch. 891, Sec. 3.19, eff. Sept. 1, 1997.

Sec. 2257.064. REINSTATEMENT. The comptroller may reinstate a depository's designation as a state depository if:

(1) the comptroller determines that the depository has remedied all violations of this chapter; and

(2) the depository assures the comptroller to the comptroller's satisfaction that the depository will maintain reasonable compliance with this chapter.

Added by Acts 1993, 73rd Leg., ch. 268, Sec. 1, eff. Sept. 1, 1993. Amended by Acts 1997, 75th Leg., ch. 891, Sec. 3.19, eff. Sept. 1, 1997.

SUBCHAPTER E. EXEMPT INSTITUTIONS

Sec. 2257.081. DEFINITION. In this subchapter, "exempt institution" means:

(1) a public retirement system, as defined by Section 802.001; or

(2) the permanent school fund, as described by Section 43.001, Education Code.

Added by Acts 1993, 73rd Leg., ch. 268, Sec. 1, eff. Sept. 1, 1993. Amended by Acts 1997, 75th Leg., ch. 165, Sec. 6.31, eff. Sept. 1, 1997.

Sec. 2257.082. FUNDS OF EXEMPT INSTITUTION. An exempt institution is not required to have its funds fully insured or collateralized at all times if:

(1) the funds are held by:

(A) a custodian of the institution's assets under a trust agreement; or

(B) a person in connection with a transaction related to an investment; and

(2) the governing body of the institution, in exercising its fiduciary responsibility, determines that the institution is adequately protected by using a trust agreement, special deposit, surety bond, substantial deposit insurance, or other method an exempt institution commonly uses to protect itself from liability.

Added by Acts 1993, 73rd Leg., ch. 268, Sec. 1, eff. Sept. 1, 1993.

Sec. 2257.083. INVESTMENT; SELECTION OF DEPOSITORY. This chapter does not:

(1) prohibit an exempt institution from prudently investing in a certificate of deposit; or

(2) restrict the selection of a depository by the governing body of an exempt institution in accordance with its fiduciary duty.

Added by Acts 1993, 73rd Leg., ch. 268, Sec. 1, eff. Sept. 1, 1993.

SUBCHAPTER F. POOLED COLLATERAL TO SECURE DEPOSITS OF CERTAIN PUBLIC FUNDS

Sec. 2257.101. DEFINITION. In this subchapter, "participating institution" means a financial institution that holds one or more deposits of public funds and that participates in the pooled collateral program under this subchapter.

Added by Acts 2009, 81st Leg., R.S., Ch. 486 (S.B. 638), Sec. 1, eff. September 1, 2009.

Sec. 2257.102. POOLED COLLATERAL PROGRAM. (a) As an alternative to collateralization under Subchapter B, the comptroller

by rule shall establish a program for centralized pooled collateralization of deposits of public funds and for monitoring collateral maintained by participating institutions. The rules must provide that deposits of public funds of a county are not eligible for collateralization under the program. The comptroller shall provide for a separate collateral pool for any single participating institution's deposits of public funds.

(b) Under the pooled collateral program, the collateral of a participating institution pledged for a public deposit may not be combined with, cross-collateralized with, aggregated with, or pledged to another participating institution's collateral pools for pledging purposes.

(c) A participating institution may pledge its pooled securities to more than one participating depositor under contract with that participating institution.

(d) The pooled collateral program must provide for:

(1) participation in the program by a participating institution and each affected public entity to be voluntary;

(2) uniform procedures for processing all collateral transactions that are subject to an approved security agreement described by Section 2257.103; and

(3) the pledging of a participating institution's collateral securities using a single custodial account instead of an account for each depositor of public funds.

Added by Acts 2009, 81st Leg., R.S., Ch. 486 (S.B. 638), Sec. 1, eff. September 1, 2009.

Sec. 2257.103. PARTICIPATION IN POOLED COLLATERAL PROGRAM. A financial institution may participate in the pooled collateral program only if:

(1) the institution has entered into a binding collateral security agreement with a public agency for a deposit of public funds and the agreement permits the institution's participation in the program;

(2) the comptroller has approved the institution's participation in the program; and

(3) the comptroller has approved or provided the collateral security agreement form used.

Added by Acts 2009, 81st Leg., R.S., Ch. 486 (S.B. 638), Sec. 1, eff. September 1, 2009.

Sec. 2257.104. COLLATERAL REQUIRED; CUSTODIAN TRUSTEE. (a) Each participating institution shall secure its deposits of public funds with eligible securities the total value of which equals at least 102 percent of the amount of the deposits of public funds covered by a security agreement described by Section 2257.103 and deposited with the participating institution, reduced to the extent that the United States or an instrumentality of the United States insures the deposits. For purposes of determining whether collateral is sufficient to secure a deposit of public funds, Section 2257.022 (b) does not apply to a deposit of public funds held by the participating institution and collateralized under this subchapter.

(b) A participating institution shall provide for the collateral securities to be held by a custodian trustee, on behalf of the participating institution, in trust for the benefit of the pooled collateral program. A custodian trustee must qualify as a custodian under Section 2257.041.

(c) The comptroller by rule shall regulate a custodian trustee under the pooled collateral program in the manner provided by Subchapter C to the extent practicable. The rules must ensure that a custodian trustee depository does not own, is not owned by, and is independent of the financial institution or institutions for which it holds the securities in trust, except that the rules must allow the following to be a custodian trustee:

(1) a federal reserve bank;

(2) a banker's bank, as defined by Section 34.105, Finance Code; and

(3) a federal home loan bank.

Added by Acts 2009, 81st Leg., R.S., Ch. 486 (S.B. 638), Sec. 1, eff. September 1, 2009.

Sec. 2257.105. MONITORING COLLATERAL. (a) Each participating institution shall file the following reports with the comptroller electronically and as prescribed by rules of the comptroller:

(1) a daily report of the aggregate ledger balance of deposits of public agencies participating in the pooled collateral program that are held by the institution, with each public entity's funds held itemized;

(2) a weekly summary report of the total market value of securities held by a custodian trustee on behalf of the participating institution;

(3) a monthly report listing the collateral securities held by a custodian trustee on behalf of the participating institution, together with the value of the securities; and

(4) as applicable, a participating institution's annual report that includes the participating institution's financial statements.

(b) The comptroller shall provide the participating institution an acknowledgment of each report received.

(c) The comptroller shall provide a daily report of the market value of the securities held in each pool.

(d) The comptroller shall post each report on the comptroller's Internet website.

Added by Acts 2009, 81st Leg., R.S., Ch. 486 (S.B. 638), Sec. 1, eff. September 1, 2009.

Sec. 2257.106. ANNUAL ASSESSMENT. (a) Once each state fiscal year, the comptroller shall impose against each participating institution an assessment in an amount sufficient to pay the costs of administering this subchapter. The amount of an assessment must be based on factors that include the number of public entity accounts a participating institution maintains, the number of transactions a participating institution conducts, and the aggregate average weekly deposit amounts during that state fiscal year of each participating institution's deposits of public funds collateralized under this subchapter. The comptroller by rule shall establish the formula for determining the amount of the assessments imposed under this subsection.

(b) The comptroller shall provide to each participating institution a notice of the amount of the assessment against the institution.

(c) A participating institution shall remit to the comptroller the amount assessed against it under this section not later than the 45th day after the date the institution receives the notice under Subsection (b).

(d) Money remitted to the comptroller under this section may be appropriated only for the purposes of administering this subchapter.

Added by Acts 2009, 81st Leg., R.S., Ch. 486 (S.B. 638), Sec. 1, eff. September 1, 2009.

Sec. 2257.107. PENALTY FOR REPORTING VIOLATION. The comptroller may impose an administrative penalty against a participating institution that does not timely file a report required by Section 2257.105.

Added by Acts 2009, 81st Leg., R.S., Ch. 486 (S.B. 638), Sec. 1, eff. September 1, 2009.

Sec. 2257.108. NOTICE OF COLLATERAL VIOLATION; ADMINISTRATIVE PENALTY. (a) The comptroller may issue a notice to a participating institution that the institution appears to be in violation of collateral requirements under Section 2257.104 and rules of the comptroller.

(b) The comptroller may impose an administrative penalty against a participating institution that does not maintain collateral in an amount and in the manner required by Section 2257.104 and rules of the comptroller if the participating institution has not remedied the violation before the third business day after the date a notice is issued under Subsection (a).

Added by Acts 2009, 81st Leg., R.S., Ch. 486 (S.B. 638), Sec. 1, eff. September 1, 2009.

Sec. 2257.109. PENALTY FOR FAILURE TO PAY ASSESSMENT. The comptroller may impose an administrative penalty against a

participating institution that does not pay an assessment against it in the time provided by Section 2257.106(c).

Added by Acts 2009, 81st Leg., R.S., Ch. 486 (S.B. 638), Sec. 1, eff. September 1, 2009.

Sec. 2257.110. PENALTY AMOUNT; PENALTIES NOT EXCLUSIVE. (a) The comptroller by rule shall adopt a formula for determining the amount of a penalty under this subchapter. For each violation and for each day of a continuing violation, a penalty must be at least $100 per day and not more than $1,000 per day. The penalty must be based on factors that include:

(1) the aggregate average weekly deposit amounts during the state fiscal year of the institution's deposits of public funds;

(2) the number of violations by the institution during the state fiscal year;

(3) the number of days of a continuing violation; and

(4) the average asset base of the institution as reported on the institution's year-end report of condition.

(b) The penalties provided by Sections 2257.107-2257.109 are in addition to those provided by Subchapter D or other law.

Added by Acts 2009, 81st Leg., R.S., Ch. 486 (S.B. 638), Sec. 1, eff. September 1, 2009.

Sec. 2257.111. PENALTY PROCEEDING CONTESTED CASE. A proceeding to impose a penalty under Section 2257.107, 2257.108, or 2257.109 is a contested case under Chapter 2001.

Added by Acts 2009, 81st Leg., R.S., Ch. 486 (S.B. 638), Sec. 1, eff. September 1, 2009.

Sec. 2257.112. SUIT TO COLLECT PENALTY. The attorney general may sue to collect a penalty imposed under Section 2257.107, 2257.108, or 2257.109.

Added by Acts 2009, 81st Leg., R.S., Ch. 486 (S.B. 638), Sec. 1, eff. September 1, 2009.

Sec. 2257.113. ENFORCEMENT STAYED PENDING REVIEW. Enforcement of a penalty imposed under Section 2257.107, 2257.108, or 2257.109 may be stayed during the time the order is under judicial review if the participating institution pays the penalty to the clerk of the court or files a supersedeas bond with the court in the amount of the penalty. A participating institution that cannot afford to pay the penalty or file the bond may stay the enforcement by filing an affidavit in the manner required by the Texas Rules of Civil Procedure for a party who cannot afford to file security for costs, subject to the right of the comptroller to contest the affidavit as provided by those rules.

Added by Acts 2009, 81st Leg., R.S., Ch. 486 (S.B. 638), Sec. 1, eff. September 1, 2009.

Sec. 2257.114. USE OF COLLECTED PENALTIES. Money collected as penalties under this subchapter may be appropriated only for the purposes of administering this subchapter.

Added by Acts 2009, 81st Leg., R.S., Ch. 486 (S.B. 638), Sec. 1, eff. September 1, 2009.

APPENDIX D

AUTHORIZED MASTER REPURCHASE AGREEMENT

Master Repurchase Agreement

September 1996 Version

Dated as of

Between:

and

1. Applicability

From time to time the parties hereto may enter into transactions in which one party ("Seller") agrees to transfer to the other ("Buyer") securities or other assets ("Securities") against the transfer of funds by Buyer, with a simultaneous agreement by Buyer to transfer to Seller such Securities at a date certain or on demand, against the transfer of funds by Seller. Each such transaction shall be referred to herein as a "Transaction" and, unless otherwise agreed in writing, shall be governed by this Agreement, including any supplemental terms or conditions contained in Annex I hereto and in any other annexes identified herein or therein as applicable hereunder.

2. Definitions

(a) "Act of Insolvency", with respect to any party, (i) the commencement by such party as debtor of any case or proceeding under any bankruptcy, insolvency, reorganization, liquidation, moratorium, dissolution, delinquency or similar law, or such party seeking the appointment or election of a receiver, conservator, trustee, custodian or similar official for such party or any substantial part of its property, or the convening of any meeting of creditors for purposes of commencing any such case or proceeding or seeking such an appointment or election, (ii) the commencement of any such case or proceeding against such party, or another seeking such an appointment or election, or the filing against a party of an application for a protective decree under the provisions of the Securities Investor Protection Act of 1970, which (A) is consented to or not timely contested by such party, (B) results in the entry of an order for relief, such an appointment or election, the issuance of such a protective decree or the

entry of an order having a similar effect, or (C) is not dismissed within 15 days, (iii) the making by such party of a general assignment for the benefit of creditors, or (iv) the admission in writing by such party of such party's inability to pay such party's debts as they become due;

(b) "Additional Purchased Securities", Securities provided by Seller to Buyer pursuant to Paragraph 4(a) hereof;

(c) "Buyer's Margin Amount", with respect to any Transaction as of any date, the amount obtained by application of the Buyer's Margin Percentage to the Repurchase Price for such Transaction as of such date;

(d) "Buyer's Margin Percentage", with respect to any Transaction as of any date, a percentage (which may be equal to the Seller's Margin Percentage) agreed to by Buyer and Seller or, in the absence of any such agreement, the percentage obtained by dividing the Market Value of the Purchased Securities on the Purchase Date by the Purchase Price on the Purchase Date for such Transaction;

(e) "Confirmation", the meaning specified in Paragraph 3(b) hereof;

(f) "Income", with respect to any Security at any time, any principal thereof and all interest, dividends or other distributions thereon;

(g) "Margin Deficit", the meaning specified in Paragraph 4(a) hereof;

(h) "Margin Excess", the meaning specified in Paragraph 4(b) hereof;

(i) "Margin Notice Deadline", the time agreed to by the parties in the relevant Confirmation, Annex I hereto or otherwise as the deadline for giving notice requiring same-day satisfaction of margin maintenance obligations as provided in Paragraph 4 hereof (or, in the absence of any such agreement, the deadline for such purposes established in accordance with market practice);

(j) "Market Value", with respect to any Securities as of any date, the price for such Securities on such date obtained from a generally recognized source agreed to by the parties or the most recent closing bid quotation from such a source, plus accrued Income to the extent not included therein (other than any Income credited or transferred to, or applied to the obligations of, Seller pursuant to Paragraph 5 hereof) as of such date (unless contrary to market practice for such Securities);

(k) "Price Differential", with respect to any Transaction as of any date, the aggregate amount obtained by daily application of the Pricing Rate for such Transaction to the Purchase Price for such Transaction on a 360 day per year basis for the actual number of days during the period commencing on (and including) the Purchase Date for such Transaction and ending on (but excluding) the date of determination (reduced by any amount of such Price Differential previously paid by Seller to Buyer with respect to such Transaction);

(l) "Pricing Rate", the per annum percentage rate for determination of the Price Differential;

(m) "Prime Rate", the prime rate of U.S. commercial banks as published in The Wall Street Journal (or, if more than one such rate is published, the average of such rates);

(n) "Purchase Date", the date on which Purchased Securities are to be transferred by Seller to Buyer;

(o) "Purchase Price", (i) on the Purchase Date, the price at which Purchased Securities are transferred by Seller to Buyer, and (ii) thereafter, except where Buyer and Seller agree otherwise, such price increased by the amount of any cash transferred by Buyer to Seller pursuant to Paragraph 4(b) hereof and decreased by the amount of any cash transferred by Seller to Buyer pursuant to Paragraph 4(a) hereof or applied to reduce Seller's obligations under clause (ii) of Paragraph 5 hereof;

(p) "Purchased Securities", the Securities transferred by Seller to Buyer in a Transaction hereunder, and any Securities substituted therefor in accordance with Paragraph 9 hereof. The term "Purchased Securities" with respect to any Transaction at any time also shall include Additional Purchased Securities delivered pursuant to Paragraph 4(a) hereof and shall exclude Securities returned pursuant to Paragraph 4(b) hereof

(q) "Repurchase Date", the date on which Seller is to repurchase the Purchased Securities from Buyer, including any date determined by application of the provisions of Paragraph 3(c) or 11 hereof;

(r) "Repurchase Price", the price at which Purchased Securities are to be transferred from Buyer to Seller upon termination of a Transaction, which will be determined in each case (including Transactions terminable upon demand) as the sum of the Purchase Price and the Price Differential as of the date of such determination;

(s) "Seller's Margin Amount", with respect to any Transaction as of any date, the amount obtained by application of the Seller's Margin Percentage to the Repurchase Price for such Transaction as of such date;

(t) "Seller's Margin Percentage", with respect to any Transaction as of any date, a percentage (which may be equal to the Buyer's Margin Percentage) agreed to by Buyer and Seller or, in the absence of any such agreement, the percentage obtained by dividing the Market Value of the Purchased Securities on the Purchase Date by the Purchase Price on the Purchase Date for such Transaction.

3. Initiation; Confirmation; Termination

(a) An agreement to enter into a Transaction may be made orally or in writing at the initiation of either Buyer or Seller. On the Purchase Date for the Transaction, the Purchased Securities shall be transferred to Buyer or its agent against the transfer of the Purchase Price to an account of Seller.

(b) Upon agreeing to enter into a Transaction hereunder, Buyer or Seller (or both), as shall be agreed, shall promptly deliver to the other party a written confirmation of each Transaction (a "Confirmation"). The Confirmation shall describe the Purchased Securities (including CUSIP number, if any), identify Buyer and Seller and set forth (i) the Purchase Date, (ii) the Purchase Price, (iii) the Repurchase Date, unless the Transaction is to be terminable on demand, (iv) the Pricing Rate or Repurchase Price applicable to the Transaction, and (v) any additional terms or conditions of the Transaction not inconsistent with this Agreement. The Confirmation, together with this Agreement, shall constitute conclusive evidence of the terms agreed between Buyer and Seller with respect to the Transaction to which the Confirmation relates, unless with respect to the Confirmation specific objection is made promptly after receipt thereof. In the event of any conflict between the terms of such Confirmation and this Agreement, this Agreement shall prevail.

(c) In the case of Transactions terminable upon demand, such demand shall be made by Buyer or Seller, no later than such time as is customary in accordance with market practice, by telephone or otherwise on or prior to the business day on which such termination will be effective. On the date specified in such demand, or on the date fixed for termination in the case of Transactions having a fixed term, termination of the Transaction will be effected by transfer to Seller or its agent of the Purchased Securities and any Income in respect thereof received by Buyer (and not previously credited or transferred to, or applied to the obligations of, Seller pursuant to Paragraph 5 hereof) against the transfer of the Repurchase Price to an account of Buyer.

4. Margin Maintenance

(a) If at any time the aggregate Market Value of all Purchased Securities subject to all Transactions in which a particular party hereto is acting as Buyer is less than the aggregate Buyer's Margin Amount for all such Transactions (a "Margin Deficit"), then Buyer may by notice to Seller require Seller in such Transactions, at Seller's option, to transfer to Buyer cash or additional Securities reasonably acceptable to Buyer ("Additional Purchased Securities"), so that the cash and aggregate Market Value of the Purchased Securities, including any such Additional Purchased Securities, will thereupon equal or exceed such aggregate Buyer's Margin Amount (decreased by the amount of any Margin Deficit as of such date arising from any Transactions in which such Buyer is acting as Seller).

(b) If at any time the aggregate Market Value of all Purchased Securities subject to all Transactions in which a particular party hereto is acting as Seller exceeds the aggregate Seller's Margin Amount for all such Transactions at such time (a "Margin Excess"), then Seller may by notice to Buyer require Buyer in such Transactions, at Buyer's option, to transfer cash or Purchased Securities to Seller, so that the aggregate Market Value of the Purchased Securities, after deduction of any such cash or any Purchased Securities so transferred, will thereupon

not exceed such aggregate Seller's Margin Amount (increased by the amount of any Margin Excess as of such date arising from any Transactions in which such Seller is acting as Buyer).

(c) If any notice is given by Buyer or Seller under subparagraph (a) or (b) of this Paragraph at or before the Margin Notice Deadline on any business day, the party receiving such notice shall transfer cash or Additional Purchased Securities as provided in such subparagraph no later than the close of business in the relevant market on such day. If any such notice is given after the Margin Notice Deadline, the party receiving such notice shall transfer such cash or Securities no later than the close of business in the relevant market on the next business day following such notice.

(d) Any cash transferred pursuant to this Paragraph shall be attributed to such Transactions as shall be agreed upon by Buyer and Seller.

(e) Seller and Buyer may agree, with respect to any or all Transactions hereunder, that the respective rights of Buyer or Seller (or both) under subparagraphs (a) and (b) of this Paragraph may be exercised only where a Margin Deficit or Margin Excess, as the case may be, exceeds a specified dollar amount or a specified percentage of the Repurchase Prices for such Transactions (which amount or percentage shall be agreed to by Buyer and Seller prior to entering into any such Transactions).

(f) Seller and Buyer may agree, with respect to any or all Transactions hereunder, that the respective rights of Buyer and Seller under subparagraphs (a) and (b) of this Paragraph to require the elimination of a Margin Deficit or a Margin Excess, as the case may be, may be exercised whenever such a Margin Deficit or Margin Excess exists with respect to any single Transaction hereunder (calculated without regard to any other Transaction outstanding under this Agreement).

5. Income Payments

Seller shall be entitled to receive an amount equal to all Income paid or distributed on or in respect of the Securities that is not otherwise received by Seller, to the full extent it would be so entitled if the Securities had not been sold to Buyer. Buyer shall, as the parties may agree with respect to any Transaction (or, in the absence of any such agreement, as Buyer shall reasonably determine in its discretion), on the date such Income is paid or distributed either (i) transfer to or credit to the account of Seller such Income with respect to any Purchased Securities subject to such Transaction or (ii) with respect to Income paid in cash, apply the Income payment or payments to reduce the amount, if any, to be transferred to Buyer by Seller upon termination of such Transaction. Buyer shall not be obligated to take any action pursuant to the preceding sentence (A) to the extent that such action would result in the creation of a Margin Deficit, unless prior thereto or simultaneously therewith Seller transfers to Buyer cash or Additional Purchased Securities sufficient to eliminate such Margin Deficit, or (B) if an Event of Default with respect to Seller has occurred and is then continuing at the time such Income is paid or distributed.

6. Security Interest

Although the parties intend that all Transactions hereunder be sales and purchases and not loans, in the event any such Transactions are deemed to be loans, Seller shall be deemed to have pledged to Buyer as security for the performance by Seller of its obligations under each such Transaction, and shall be deemed to have granted to Buyer a security interest in, all of the Purchased Securities with respect to all Transactions hereunder and all Income thereon and other proceeds thereof.

7. Payment and Transfer

Unless otherwise mutually agreed, all transfers of funds hereunder shall be in immediately available funds. All Securities transferred by one party hereto to the other party (i) shall be in suitable form for transfer or shall be accompanied by duly executed instruments of transfer or assignment in blank and such other documentation as the party receiving possession may reasonably request, (ii) shall be transferred on the book-entry system of a Federal Reserve Bank, or (iii) shall be transferred by any other method mutually acceptable to Seller and Buyer.

8. Segregation of Purchased Securities To the extent required by applicable law, all Purchased Securities in the possession of Seller shall be segregated from other securities in its possession and shall be identified as subject to this Agreement. Segregation may be accomplished by appropriate identification on the books and records of the holder, including a financial or securities intermediary or a clearing corporation. All of Seller's interest in the Purchased Securities shall pass to Buyer on the Purchase Date and, unless otherwise agreed by Buyer and Seller, nothing in this Agreement shall preclude Buyer from engaging in repurchase transactions with the Purchased Securities or otherwise selling, transferring, pledging or hypothecating the Purchased Securities, but no such transaction shall relieve Buyer of its obligations to transfer Purchased Securities to Seller pursuant to Paragraph 3, 4 or 11 hereof, or of Buyer's obligation to credit or pay Income to, or apply Income to the obligations of, Seller pursuant to Paragraph 5 hereof.

Required Disclosure for Transactions in Which the Seller Retains Custody of the Purchased Securities

Seller is not permitted to substitute other securities for those subject to this Agreement and therefore must keep Buyer's securities segregated at all times, unless in this Agreement Buyer grants Seller the right to substitute other securities. If Buyer grants the right to substitute, this means that Buyer's securities will likely be commingled with Seller's own securities during the trading day. Buyer is advised that, during any trading day that Buyer's securities are commingled with Seller's securities, they [will]* [may]** be subject to liens granted by Seller to [its clearing bank]* [third parties]** and may be used by Seller for deliveries on other securities transactions. Whenever the securities are commingled, Seller's ability to resegregate substitute securities for Buyer will be subject to Seller's ability to satisfy [the clearing]* [any]** lien or to obtain substitute securities.

* Language to be used under 17 C.F.R. ß403.4(e) if Seller is a government securities broker
or dealer other than a financial institution.
** Language to be used under 17 C.F.R. ß403.5(d) if Seller is a financial institution.

9. Substitution

(a) Seller may, subject to agreement with and acceptance by Buyer, substitute other Securities for any Purchased Securities. Such substitution shall be made by transfer to Buyer of such other Securities and transfer to Seller of such Purchased Securities. After substitution, the substituted Securities shall be deemed to be Purchased Securities.

(b) In Transactions in which Seller retains custody of Purchased Securities, the parties expressly agree that Buyer shall be deemed, for purposes of subparagraph (a) of this Paragraph, to have agreed to and accepted in this Agreement substitution by Seller of other Securities for Purchased Securities; provided, however, that such other Securities shall have a Market Value at least equal to the Market Value of the Purchased Securities for which they are substituted.

10.Representations

Each of Buyer and Seller represents and warrants to the other that (i) it is duly authorized to execute and deliver this Agreement, to enter into Transactions contemplated hereunder and to perform its obligations hereunder and has taken all necessary action to authorize such execution, delivery and performance, (ii) it will engage in such Transactions as principal (or, if agreed in writing, in the form of an annex hereto or otherwise, in advance of any Transaction by the other party hereto, as agent for a disclosed principal), (iii) the person signing this Agreement on its behalf is duly authorized to do so on its behalf (or on behalf of any such disclosed principal), (iv) it has obtained all authorizations of any governmental body required in connection with this Agreement and the Transactions hereunder and such authorizations are in full force and effect and (v) the execution, delivery and performance of this Agreement and the Transactions hereunder will not violate any law, ordinance, charter, bylaw or rule applicable to it or any agreement by which it is bound or by which any of its assets are affected. On the Purchase Date for any Transaction Buyer and Seller shall each be deemed to repeat all the foregoing representations made by it.

11.Events of Default

In the event that (i) Seller fails to transfer or Buyer fails to purchase Purchased Securities upon the applicable Purchase Date, (ii) Seller fails to repurchase or Buyer fails to transfer Purchased Securities upon the applicable Repurchase Date, (iii) Seller or Buyer fails to comply with Paragraph 4 hereof, (iv) Buyer fails, after one business day's notice, to comply with Paragraph 5 hereof, (v) an Act of Insolvency occurs with respect to Seller or Buyer, (vi) any representation made by Seller or Buyer shall have been incorrect or untrue in any material respect when made or repeated or deemed to have been made or repeated, or (vii) Seller or Buyer shall admit to the other its inability to, or its intention not to, perform any of its obligations hereunder (each an "Event of Default"):

(a) The nondefaulting party may, at its option (which option shall be deemed to have been exercised immediately upon the occurrence of an Act of Insolvency), declare an Event of Default to have occurred hereunder and, upon the exercise or deemed exercise of such option, the Repurchase Date for each Transaction hereunder shall, if it has not already occurred, be deemed immediately to occur (except that, in the event that the Purchase Date for any Transaction has not yet occurred as of the date of such exercise or deemed exercise, such Transaction shall be deemed immediately canceled). The nondefaulting party shall (except upon the occurrence of an Act of Insolvency) give notice to the defaulting party of the exercise of such option as promptly as practicable.

(b) In all Transactions in which the defaulting party is acting as Seller, if the nondefaulting party exercises or is deemed to have exercised the option referred to in subparagraph (a) of this Paragraph, (i) the defaulting party's obligations in such Transactions to repurchase all Purchased Securities, at the Repurchase Price therefor on the Repurchase Date determined in accordance with subparagraph (a) of this Paragraph, shall thereupon become immediately due and payable, (ii) all Income paid after such exercise or deemed exercise shall be retained by the nondefaulting party and applied to the aggregate unpaid Repurchase Prices and any other amounts owing by the defaulting party hereunder, and (iii) the defaulting party shall immediately deliver to the nondefaulting party any Purchased Securities subject to such Transactions then in the defaulting party's possession or control.

(c) In all Transactions in which the defaulting party is acting as Buyer, upon tender by the nondefaulting party of payment of the aggregate Repurchase Prices for all such Transactions, all right, title and interest in and entitlement to all Purchased Securities subject to such Transactions shall be deemed transferred to the nondefaulting party, and the defaulting party shall deliver all such Purchased Securities to the nondefaulting party.

(d) If the nondefaulting party exercises or is deemed to have exercised the option referred to in subparagraph (a) of this Paragraph, the nondefaulting party, without prior notice to the defaulting party, may: (i) as to Transactions in which the defaulting party is acting as Seller, (A) immediately sell, in a recognized market (or otherwise in a commercially reasonable manner) at such price or prices as the nondefaulting party may reasonably deem satisfactory, any or all Purchased Securities subject to such Transactions and apply the proceeds thereof to the aggregate unpaid Repurchase Prices and any other amounts owing by the defaulting party hereunder or (B) in its sole discretion elect, in lieu of selling all or a portion of such Purchased Securities, to give the defaulting party credit for such Purchased Securities in an amount equal to the price therefor on such date, obtained from a generally recognized source or the most recent closing bid quotation from such a source, against the aggregate unpaid = Repurchase Prices and any other amounts owing by the defaulting party hereunder; and (ii) as to Transactions in which the defaulting party is acting as Buyer, (A) immediately purchase, in a recognized market (or otherwise in a commercially reasonable manner) at such price or prices as the nondefaulting party may reasonably deem satisfactory, securities ("Replacement Securities") of the same class and amount as any Purchased Securities that are not delivered by the defaulting party to the nondefaulting party as required hereunder or (B) in its sole discretion elect, in lieu of purchasing Replacement Securities, to be deemed to have purchased Replacement Securities at the price therefor on such date, obtained from a generally recognized source or the most recent closing offer quotation from such a source. Unless otherwise provided in Annex I, the parties acknowledge and agree that (1) the Securities subject to any Transaction hereunder are instruments traded in a recognized market, (2) in the absence of a generally recognized source for prices or bid or offer quotations for any Security, the nondefaulting party may establish the source therefor in its sole discretion and (3) all prices, bids and offers shall be determined together with accrued Income (except to the extent contrary to market practice with respect to the relevant Securities).

(e) As to Transactions in which the defaulting party is acting as Buyer, the defaulting party shall be liable to the nondefaulting party for any excess of the price paid (or deemed paid) by the nondefaulting party for Replacement

Securities over the Repurchase Price for the Purchased Securities replaced thereby and for any amounts payable by the defaulting party under Paragraph 5 hereof or otherwise hereunder.

(f) For purposes of this Paragraph 11, the Repurchase Price for each Transaction hereunder in respect of which the defaulting party is acting as Buyer shall not increase above the amount of such Repurchase Price for such Transaction determined as of the date of the exercise or deemed exercise by the nondefaulting party of the option referred to in subparagraph (a) of this Paragraph.

(g) The defaulting party shall be liable to the nondefaulting party for (i) the amount of all reasonable legal or other expenses incurred by the nondefaulting party in connection with or as a result of an Event of Default, (ii) damages in an amount equal to the cost (including all fees, expenses and commissions) of entering into replacement transactions and entering into or terminating hedge transactions in connection with or as a result of an Event of Default, and (iii) any other loss, damage, cost or expense directly arising or resulting from the occurrence of an Event of Default in respect of a Transaction.

(h) To the extent permitted by applicable law, the defaulting party shall be liable to the nondefaulting party for interest on any amounts owing by the defaulting party hereunder, from the date the defaulting party becomes liable for such amounts hereunder until such amounts are (i) paid in full by the defaulting party or (ii) satisfied in full by the exercise of the nondefaulting party's rights hereunder. Interest on any sum payable by the defaulting party to the nondefaulting party under this Paragraph 11(h) shall be at a rate equal to the greater of the Pricing Rate for the relevant Transaction or the Prime Rate.

(i) The nondefaulting party shall have, in addition to its rights hereunder, any rights otherwise available to it under any other agreement or applicable law.

12.Single Agreement

Buyer and Seller acknowledge that, and have entered hereinto and will enter into each Transaction hereunder in consideration of and in reliance upon the fact that, all Transactions hereunder constitute a single business and contractual relationship and have been made in consideration of each other. Accordingly, each of Buyer and Seller agrees (i) to perform all of its obligations in respect of each Transaction hereunder, and that a default in the performance of any such obligations shall constitute a default by it in respect of all Transactions hereunder, (ii) that each of them shall be entitled to set off claims and apply property held by them in respect of any Transaction against obligations owing to them in respect of any other Transactions hereunder and (iii) that payments, deliveries and other transfers made by either of them in respect of any Transaction shall be deemed to have been made in consideration of payments, deliveries and other transfers in respect of any other Transactions hereunder, and the obligations to make any such payments, deliveries and other transfers may be applied against each other and netted.

13. Notices and Other Communications

Any and all notices, statements, demands or other communications hereunder may be given by a party to the other by mail, facsimile, telegraph, messenger or otherwise to the address specified in Annex II hereto, or so sent to such party at any other place specified in a notice of change of address hereafter received by the other. All notices, demands and requests hereunder may be made orally, to be confirmed promptly in writing, or by other communication as specified in the preceding sentence.

14.Entire Agreement; Severability

This Agreement shall supersede any existing agreements between the parties containing general terms and conditions for repurchase transactions. Each provision and agreement herein shall be treated as separate and independent from any other provision or agreement herein and shall be enforceable notwithstanding the unenforceability of any such other provision or agreement.

15.Non-assignability; Termination

(a) The rights and obligations of the parties under this Agreement and under any Transaction shall not be assigned by either party without the prior written consent of the other party, and any such assignment without the prior

written consent of the other party shall be null and void. Subject to the foregoing, this Agreement and any Transactions shall be binding upon and shall inure to the benefit of the parties and their respective successors and assigns. This Agreement may be terminated by either party upon giving written notice to the other, except that this Agreement shall, notwithstanding such notice, remain applicable to any Transactions then outstanding.

(b) Subparagraph (a) of this Paragraph 15 shall not preclude a party from assigning, charging or otherwise dealing with all or any part of its interest in any sum payable to it under Paragraph 11 hereof.

16.Governing Law

This Agreement shall be governed by the laws of the State of New York without giving effect to the conflict of law principles thereof.

17.No Waivers, Etc.

No express or implied waiver of any Event of Default by either party shall constitute a waiver of any other Event of Default and no exercise of any remedy hereunder by any party shall constitute a waiver of its right to exercise any other remedy hereunder. No modification or waiver of any provision of this Agreement and no consent by any party to a departure herefrom shall be effective unless and until such shall be in writing and duly executed by both of the parties hereto.Without limitation on any of the foregoing, the failure to give a notice pursuant to Paragraph 4(a) or 4(b) hereof will not constitute a waiver of any right to do so at a later date.

18.Use of Employee Plan Assets

(a) If assets of an employee benefit plan subject to any provision of the Employee Retirement Income Security Act of 1974 ("ERISA") are intended to be used by either party hereto (the "Plan Party") in a Transaction, the Plan Party shall so notify the other party prior to the Transaction. The Plan Party shall represent in writing to the other party that the Transaction does not constitute a prohibited transaction under ERISA or is otherwise exempt there from, and the other party may proceed in reliance thereon but shall not be required so to proceed.

(b) Subject to the last sentence of subparagraph (a) of this Paragraph, any such Transaction shall proceed only if Seller furnishes or has furnished to Buyer its most recent available audited statement of its financial condition and its most recent subsequent unaudited statement of its financial condition.

(c) By entering into a Transaction pursuant to this Paragraph, Seller shall be deemed (i) to represent to Buyer that since the date of Seller's latest such financial statements, there has been no material adverse change in Seller's financial condition which Seller has not disclosed to Buyer, and (ii) to agree to provide Buyer with future audited and unaudited statements of its financial condition as they are issued, so long as it is a Seller in any outstanding Transaction involving a Plan Party.

19. Intent

(a) The parties recognize that each Transaction is a "repurchase agreement" as that term is defined in Section 101 of Title 11 of the United States Code, as amended (except insofar as the type of Securities subject to such Transaction or the term of such Transaction would render such definition inapplicable), and a "securities contract" as that term is defined in Section 741 of Title 11 of the United States Code, as amended (except insofar as the type of assets subject to such Transaction would render such definition inapplicable).

(b) It is understood that either party's right to liquidate Securities delivered to it in connection with Transactions hereunder or to exercise any other remedies pursuant to Paragraph 11 hereof is a contractual right to liquidate such Transaction as described in Sections 555 and 559 of Title 11 of the United States Code, as amended.

(c) The parties agree and acknowledge that if a party hereto is an "insured depository institution," as such term is defined in the Federal Deposit Insurance Act, as amended ("FDIA"), then each Transaction hereunder is a "qualified financial contract," as that term is defined in FDIA and any rules, orders or policy statements thereunder (except insofar as the type of assets subject to such Transaction would render such definition inapplicable).

(d) It is understood that this Agreement constitutes a "netting contract" as defined in and subject to Title IV of the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA") and each payment entitlement and payment obligation under any Transaction hereunder shall constitute a "covered contractual payment entitlement" or "covered contractual payment obligation", respectively, as defined in and subject to FDICIA (except insofar as one or both of the parties is not a "financial institution" as that term is defined in FDICIA).

20.Disclosure Relating to Certain Federal Protections

The parties acknowledge that they have been advised that:

(a) in the case of Transactions in which one of the parties is a broker or dealer registered with the Securities and Exchange Commission ("SEC") under Section 15 of the Securities Exchange Act of 1934 ("1934 Act"), the Securities Investor Protection Corporation has taken the position that the provisions of the Securities Investor Protection Act of 1970 ("SIPA") do not protect the other party with respect to any Transaction hereunder;

(b) in the case of Transactions in which one of the parties is a government securities broker or a government securities dealer registered with the SEC under Section 15C of the 1934 Act, SIPA will not provide protection to the other party with respect to any Transaction hereunder; and

(c) in the case of Transactions in which one of the parties is a financial institution, funds held by the financial institution pursuant to a Transaction hereunder are not a deposit and therefore are not insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, as applicable.

[Name of Party]	[Name of Party]
By: _____	By: _____
Title: _____	Title: _____
Date: _____	Date: _____

Annex I

Supplemental Terms and Conditions

This Annex I forms a part of the Master Repurchase Agreement dated as of _____, __ __ __ (the "Agreement") between _____ and _____. Capitalized terms used but not defined in this Annex I shall have the meanings ascribed to them in the Agreement.

1. Other Applicable Annexes. In addition to this Annex I and Annex II, the following Annexes and any Schedules thereto shall form a part of this Agreement and shall be applicable thereunder:

[Annex III (International Transactions)] (not applicable)

[Annex IV (Party Acting as Agent)] (not applicable)

[Annex V (Margin for Forward Transactions)] (not applicable)

[Annex VI (Buy/Sell Back Transactions)] (not applicable)

[Annex VII (Transactions Involving Registered Investment Companies)] (not applicable)

Annex II

Names and Addresses for Communications Between Parties

Annex III

International Transactions

This Annex III (including any Schedules hereto) forms a part of the Master Repurchase Agreement dated as of _____ (the "Agreement") between _____ and _____ . Capitalized terms used but not defined in this Annex III shall have the meanings ascribed to them in the Agreement.

1. **Definitions.** For purposes of the Agreement and this Annex III:
   (a) The following terms shall have the following meanings: "Base Currency", United States dollars or such other currency as Buyer and Seller may agree in the Confirmation with respect to any International Transaction or otherwise in writing; "Business Day" or "business day":

   (i) in relation to any International Transaction which (A) involves an International Security and (B) is to be settled through CEDEL or Euroclear, a day on which CEDEL or, as the case may be, Euroclear is open to settle business in the currency in which the Purchase Price and the Repurchase Price are denominated;

   (ii) in relation to any International Transaction which (A) involves an International Security and (B) is to be settled through a settlement system other than CEDEL or Euroclear, a day on which that settlement system is open to settle such International Transaction;

   (iii)in relation to any International Transaction which involves a delivery of Securities not falling within (i) or (ii) above, a day on which banks are open for business in the place where delivery of the relevant Securities is to be effected; and

   (iv) in relation to any International Transaction which involves an obligation to make a payment not falling within (i) or (ii) above, a day other than a Saturday or Sunday on which banks are open for business in the principal financial center of the country of which the currency in which the payment is denominated is the official currency and, if different, in the place where any account designated by the parties for the making or receipt of the payment is situated (or, in the case of ECU, a day on which ECU clearing operates);

   "CEDEL", CEDEL Bank, société anonyme;

   "Contractual Currency", the currency in which the International Securities subject to any International Transaction are denominated or such other currency as may be specified in the Confirmation with respect to any International Transaction;

   "Euroclear", Morgan Guaranty Trust Company of New York, Brussels Branch, as operator of the Euroclear System;

   "International Security", any Security that (i) is denominated in a currency other than United States dollars or (ii) is capable of being cleared through a clearing facility outside the United States or (iii) is issued by an issuer organized under the laws of a jurisdiction other than the United States (or any political subdivision thereof);

   "International Transaction", any Transaction involving (i) an International Security or (ii) a party organized under the laws of a jurisdiction other than the United States (or any political subdivision thereof) or having its principal place of business outside the United States or (iii) a branch or office outside the United States designated in Annex I by a party organized under the laws of the United States (or any political subdivision thereof) as an office through which that party may act;

   "LIBOR", in relation to any sum in any currency, the offered rate for deposits for such sum in such currency for a period of three months which appears on the Reuters Screen LIBO page as of 11:00 A.M., London time, on the date on which it is to be determined (or, if more than one such rate appears, the arithmetic mean of such rates);

"Spot Rate", where an amount in one currency is to be converted into a second currency on any date, the spot rate of exchange of a comparable amount quoted by a major money-center bank in the New York interbank market, as agreed by Buyer and Seller, for the sale by such bank of such second currency against a purchase by it of such first currency.

(b) Notwithstanding Paragraph 2 of the Agreement, the term "Prime Rate" shall mean, with respect to any International Transaction, LIBOR plus a spread, as may be specified in theConfirmation with respect to any International Transaction or otherwise in writing.

2. **Manner of Transfer.** All transfers of International Securities (i) shall be in suitable form for transfer and accompanied by duly executed instruments of transfer or assignment in blank (where required for transfer) and such other documentation as the transferee may reasonably request, or (ii) shall be transferred through the book-entry system of Euroclear or CEDEL, or (iii) shall be transferred through any other agreed securities clearing system or (iv) shall be transferred by any other method mutually acceptable to Seller and Buyer.

3. **Contractual Currency.**
(a) Unless otherwise mutually agreed, all funds transferred in respect of the Purchase Price or the Repurchase Price in any International Transaction shall be in the Contractual Currency.

(b) Notwithstanding subparagraph (a) of this Paragraph 3, the payee of any payment may, at its option, accept tender thereof in any other currency; provided, however, that, to the extent permitted by applicable law, the obligation of the payor to make such payment will be discharged only to the extent of the amount of the Contractual Currency that such payee may, consistent with normal banking procedures, purchase with such other currency (after deduction of any premium and costs of exchange) for delivery within the customary delivery period for spot transactions in respect of the relevant currency.

(c) If for any reason the amount in the Contractual Currency so received, including amounts received after conversion of any recovery under any judgment or order expressed in a currency other than the Contractual Currency, falls short of the amount in the Contractual Currency due in respect of the Agreement, the party required to make the payment shall (unless an Event of Default has occurred and such party is the nondefaulting party) as a separate and independent obligation (which shall not merge with any judgment or any payment or any partial payment or enforcement of payment) and to the extent permitted by applicable law, immediately pay such additional amount in the Contractual Currency as may be necessary to compensate for the shortfall.

(d) If for any reason the amount of the Contractual Currency received by one party hereto exceeds the amount in the Contractual Currency due such party in respect of the Agreement, then (unless an Event of Default has occurred and such party is the nondefaulting party) the party receiving the payment shall refund promptly the amount of such excess.

4. **Notices**. Any and all notices, statements, demands or other communications with respect to International Transactions shall be given in accordance with Paragraph 13 of the Agreement and shall be in the English language.

5. **Taxes.**
(a) Transfer taxes, stamp taxes and all similar costs with respect to the transfer of Securities shall be paid by Seller.

(b)

(i) Unless otherwise agreed, all money payable by one party (the "Payor") to the other (the "Payee") in respect of any International Transaction shall be paid free and clear of, and without withholding or deduction for, any taxes or duties of whatsoever nature imposed, levied, collected, withheld or assessed by any authority having power to tax (a "Tax"), unless the withholding or deduction of such Tax is required by law. In that event, unless otherwise agreed, Payor shall pay such additional amounts as will result in the net amounts receivable by Payee (after taking account of such withholding or deduction) being equal to such amounts as would have been received by Payee had no such Tax been required to be withheld or deducted; provided that for purposes of Paragraphs 5 and 6 the term "Tax" shall not include any Tax that would not have been imposed but for the existence of any present or former connection between Payee and the jurisdiction imposing such Tax other than the mere receipt of payment from Payor or the performance of Payee's obligations under an International Transaction. The parties acknowledge and agree, for the avoidance of doubt, that the amount of Income required to be transferred, credited

or applied by Buyer for the benefit of Seller under Paragraph 5 of the Agreement shall be determined without taking into account any Tax required to be withheld or deducted from such Income, unless otherwise agreed.

(ii) In the case of any Tax required to be withheld or deducted from any money payable to a party hereto acting as Payee by the other party hereto acting as Payor, Payee agrees to deliver to Payor (or, if applicable, to the authority imposing the Tax) any certificate or document reasonably requested by Payor that would entitle Payee to an exemption from, or reduction in the rate of, withholding or deduction of Tax from money payable by Payor to Payee.

(iii)Each party hereto agrees to notify the other party of any circumstance known or reasonably known to it (other than a Change of Tax Law, as defined in Paragraph 6 hereof) that causes a certificate or document provided by it pursuant to subparagraph (b)(ii) of this Paragraph to fail to be true.

(iv) Notwithstanding subparagraph (b)(i) of this Paragraph, no additional amounts shall be payable by Payor to Payee in respect of an International Transaction to the extent that such additional amounts are payable as a result of a failure by Payee to comply with its obligations under subparagraph (b)(ii) or (b)(iii) of this Paragraph with respect to such International Transaction.

6. **Tax Event.**
   (a) This Paragraph 6 shall apply if either party notifies the other, with respect to a Tax required to be collected by withholding or deduction, that —

   (i) any action taken by a taxing authority or brought in a court of competent jurisdiction after the date an International Transaction is entered into, regardless of whether such action is taken or brought with respect to a party to the Agreement; or

   (ii) a change in the fiscal or regulatory regime after the date an International Transaction is entered into, (each, a "Change of Tax Law") has or will, in the notifying party's reasonable opinion, have a material adverse effect on such party in the context of an International Transaction.

   (b) If so requested by the other party, the notifying party will furnish the other party with an opinion of a suitably qualified adviser that an event referred to in subparagraph (a)(i) or (a)(ii) of this Paragraph 6 has occurred and affects the notifying party.

   (c) Where this Paragraph 6 applies, the party giving the notice referred to in subparagraph (a) above may, subject to subparagraph (d) below, terminate the International Transaction effective from a date specified in the notice, not being earlier (unless so agreed by the other party) than 30 days after the date of such notice, by nominating such date as the Repurchase Date.

   (d) If the party receiving the notice referred to in subparagraph (a) of this Paragraph 6 so elects, it may override such notice by giving a counter-notice to the other party. If a counter-notice is given, the party which gives such counter-notice will be deemed to have agreed to indemnify the other party against the adverse effect referred to in subparagraph (a) of this Paragraph 6 so far as it relates to the relevant International Transaction and the original Repurchase Date will continue to apply.

   (e) Where an International Transaction is terminated as described in this Paragraph 6, the party which has given the notice to terminate shall indemnify the other party against any reasonable legal and other professional expenses incurred by the other party by reason of the termination, but the other party may not claim any sum constituting consequential loss or damage in respect of a termination in accordance with this Paragraph 6.

   (f) This Paragraph 6 is without prejudice to Paragraph 5 of this Annex III; but an obligation to pay additional amounts pursuant to Paragraph 5 of this Annex III may, where appropriate, be a circumstance which causes this Paragraph 6 to apply.

7. **Margin.** In the calculation of "Margin Deficit" and "Margin Excess" pursuant to Paragraph 4 of the Agreement, all sums not denominated in the Base Currency shall be deemed to be converted into the Base Currency at the Spot Rate on the date of such calculation.

8. **Events of Default.**

(a) In addition to the Events of Default set forth in Paragraph 11 of the Agreement, it shall be an additional "Event of Default" if either party fails, after one business day's notice, to perform any covenant or obligation required to be performed by it under this Annex III, including, without limitation, the payment of taxes or additional amounts as required by Paragraph 5 of this Annex III.

(b) In addition to the other rights of a nondefaulting party under Paragraph 11 of the Agreement, following an Event of Default, the nondefaulting party may, at any time at its option, effect the conversion of any currency into a different currency of its choice at the Spot Rate on the date of the exercise of such option and offset obligations of the defaulting party denominated in different currencies against each other.

Schedule III.A

International Transactions Relating to [Relevant Country]

This Schedule III.A forms a part of Annex III to the Master Repurchase Agreement dated asof _____ , ____ (the "Agreement") between _____and _____ . Capitalized terms used but not defined in this Schedule III.Ashall have the meanings ascribed to them in Annex III.[Insert provisions applicable to relevant country.]

Annex IV

Party Acting as Agent

This Annex IV forms a part of the Master Repurchase Agreement dated as of _____ , ____ (the "Agreement") between _____ and _____ . This Annex IV sets forth the terms and conditions governing all transactions in which a party selling securities or buying securities, as the case may be ("Agent"), in a Transaction is acting as agent for one or more third parties (each, a "Principal"). Capitalized terms used but not defined in this Annex IV shall have the meanings ascribed to them in the Agreement.

1. **Additional Representations**. In addition to the representations set forth in Paragraph 10 of the Agreement, Agent hereby makes the following representations, which shall continue during the term of any Transaction: Principal has duly authorized Agent to execute and deliver the Agreement on its behalf, has the power to so authorize Agent and to enter into the Transactions contemplated by the Agreement and to perform the obligations of Seller or Buyer, as the case may be, under such Transactions, and has taken all necessary action to authorize such execution and delivery by Agent and such performance by it.

2. **Identification of Principals.** Agent agrees (a) to provide the other party, prior to the date on which the parties agree to enter into any Transaction under the Agreement, with a written list of Principals for which it intends to act as Agent (which list may be amended in writing from time to time with the consent of the other party), and (b) to provide the other party, before the close of business on the next business day after orally agreeing to enter into a Transaction, with notice of the specific Principal or Principals for whom it is acting in connection with such Transaction. If (i) Agent fails to identify such Principal or Principals prior to the close of business on such next business day or (ii) the other party shall determine in its sole discretion that any Principal or Principals identified by Agent are not acceptable to it, the other party may reject and rescind any Transaction with such Principal or Principals, return to Agent any Purchased Securities or portion of the Purchase Price, as the case may be, previously transferred to the other party and refuse any further performance under such Transaction, and Agent shall immediately return to the other party any portion of the Purchase Price or Purchased Securities, as the case may be, previously transferred to Agent in connection with such Transaction; provided, however, that (A) the other party shall promptly (and in any event within one business day) notify Agent of its determination to reject and rescind such Transaction and (B) to the extent that any performance was rendered by any party under any Transaction rejected by the other party, such party shall remain entitled to any Price Differential or other amounts that would have been payable to it with respect to such performance if such Transaction had not been rejected. The other party acknowledges that Agent shall not have any obligation to provide it with confidential information regarding the financial status of its Principals; Agent agrees, however, that it will assist the other party in obtaining from Agent's Principals such information regarding the financial status of such Principals as the other party may reasonably request.

3. **Limitation of Agent's Liability.** The parties expressly acknowledge that if the representations of Agent under the Agreement, including this Annex IV, are true and correct in all material respects during the term of any Transaction and Agent otherwise complies with the provisions of this Annex IV, then (a) Agent's obligations under the Agreement shall not include a guarantee of performance by its Principal or Principals and (b) the other party's remedies shall not include a right of setoff in respect of rights or obligations, if any, of Agent arising in other transactions in which Agent is acting as principal.

4. **Multiple Principals.**
   (a) In the event that Agent proposes to act for more than one Principal hereunder, Agent and the other party shall elect whether (i) to treat Transactions under the Agreement as transactions entered into on behalf of separate Principals or (ii) to aggregate such Transactions as if they were transactions by a single Principal. Failure to make such an election in writing shall be deemed an election to treat Transactions under the Agreement as transactions on behalf of separate Principals.

   (b) In the event that Agent and the other party elect (or are deemed to elect) to treat Transactions under the Agreement as transactions on behalf of separate Principals, the parties agree that (i) Agent will provide the other party, together with the notice described in Paragraph 2(b) of this Annex IV, notice specifying the portion of each Transaction allocable to the account of each of the Principals for which it is acting (to the extent that any such Transaction is allocable to the account of more than one Principal); (ii) the portion of any individual Transaction allocable to each Principal shall be deemed a separate Transaction under the Agreement; (iii) the margin

maintenance obligations of Buyer and Seller under Paragraph 4 of the Agreement shall be determined on a Transaction-by-Transaction basis (unless the parties agree to determine such obligations on a Principal-by-Principal basis); and (iv) Buyer's and Seller's remedies under the Agreement upon the occurrence of an Event of Default shall be determined as if Agent had entered into a separate Agreement with the other party on behalf of each of its Principals.

(c) In the event that Agent and the other party elect to treat Transactions under the Agreement as if they were transactions by a single Principal, the parties agree that (i) Agent's notice under Paragraph 2(b) of this Annex IV need only identify the names of its Principals but not the portion of each Transaction allocable to each Principal's account; (ii) the margin maintenance obligations of Buyer and Seller under Paragraph 4 of the Agreement shall, subject to any greater requirement imposed by applicable law, be determined on an aggregate basis for all Transactions entered into by Agent on behalf of any Principal; and (iii) Buyer's and Seller's remedies upon the occurrence of an Event of Default shall be determined as if all Principals were a single Seller or Buyer, as the case may be.

(d) Notwithstanding any other provision of the Agreement (including, without limitation, this Annex IV), the parties agree that any Transactions by Agent on behalf of an employee benefit plan under ERISA shall be treated as Transactions on behalf of separate Principals in accordance with Paragraph 4(b) of this Annex IV (and all margin maintenance obligations of the parties shall be determined on a Transaction-by-Transaction basis).

5. **Interpretation of Terms**. All references to "Seller" or "Buyer", as the case may be, in the Agreement shall, subject to the provisions of this Annex IV (including, among other provisions, the limitations on Agent's liability in Paragraph 3 of this Annex IV), be construed to reflect that (i) each Principal shall have, in connection with any Transaction or Transactions entered into by Agent on its behalf, the rights, responsibilities, privileges and obligations of a "Seller" or "Buyer", as the case may be, directly entering into such Transaction or Transactions with the other party under the Agreement, and (ii) Agent's Principal or Principals have designated Agent as their sole agent for performance of Seller's obligations to Buyer or Buyer's obligations to Seller, as the case may be, and for receipt of performance by Buyer of its obligations to Seller or Seller of its obligations to Buyer, as the case may be, in connection with any Transaction or Transactions under the Agreement (including, among other things, as Agent for each Principal in connection with transfers of Securities, cash or other property and as agent for giving and receiving all notices under the Agreement). Both Agent and its Principal or Principals shall be deemed "parties" to the Agreement and all references to a "party" or "either party" in the Agreement shall be deemed revised accordingly (and any Act of Insolvency with respect to Agent or any other Event of Default by Agent under Paragraph 11 of the Agreement shall be deemed an Event of Default by Seller or Buyer, as the case may be).

Annex V

Margin for Forward Transactions

This Annex V forms a part of the Master Repurchase Agreement dated as of _____ , ____ (the "Agreement") between _____ and _____ . Capitalized terms used but not defined in this Annex V shall have the meanings ascribed to them in the Agreement.

1. **Definitions**. For purposes of the Agreement and this Annex V, the following terms shall have the following meanings: "Forward Exposure", the amount of loss a party would incur upon canceling a Forward Transaction and entering into a replacement transaction, determined in accordance with market practice or as otherwise agreed by the parties; "Forward Transaction", any Transaction agreed to by the parties as to which the Purchase Date has not yet occurred; "Net Forward Exposure", the aggregate amount of a party's Forward Exposure to the other party under all Forward Transactions hereunder reduced by the aggregate amount of any Forward Exposure of the other party to such party under all Forward Transactions hereunder; "Net Unsecured Forward Exposure", a party's Net Forward Exposure reduced by the Market Value of any Forward Collateral transferred to such party (and not returned) pursuant to Paragraph 2 of this Annex V.

2. **Margin Maintenance.**
   (a) If at any time a party (the "In-the-Money Party") shall have a Net Unsecured Forward Exposure to the other party (the "Out-of-the-Money Party") under one or more Forward Transactions, the In-the-Money Party may by notice to the Out-of-the-Money Party require the Out-of-the-Money Party to transfer to the In-the-Money Party Securities or cash reasonably acceptable to the In-the-Money-Party (together with any Income thereon and proceeds thereof, "Forward Collateral") having a Market Value sufficient to eliminate such Net Unsecured Forward Exposure. The Out-of-the-Money Party may by notice to the In-the-Money Party require the In-the-Money Party to transfer to the Out-of-the- Money Party Forward Collateral having a Market Value that exceeds the In-the-Money Party's Net Forward Exposure ("Excess Forward Collateral Amount"). The rights of the parties under this subparagraph shall be in addition to their rights under subparagraphs (a) and (b) of Paragraph 4 and any other provisions of the Agreement.

   (b) The parties may agree, with respect to any or all Forward Transactions hereunder, that the respective rights of the parties under subparagraph (a) of this Paragraph may be exercised only where a Net Unsecured Forward Exposure or Excess Forward Collateral Amount, as the case may be, exceeds a specified dollar amount or other specified threshold for such Forward Transactions (which amount or threshold shall be agreed to by the parties prior to entering into any such Forward Transactions).

   (c) The parties may agree, with respect to any or all Forward Transactions hereunder, that the respective rights of the parties under subparagraph (a) of this Paragraph to require the elimination of a Net Unsecured Forward Exposure or Excess Forward Collateral Amount, as the case may be, may be exercised whenever such a Net Unsecured Forward Exposure or Excess Forward Collateral Amount exists with respect to any single Forward Transaction hereunder (calculated without regard to any other Forward Transaction outstanding hereunder).

   (d) The parties may agree, with respect to any or all Forward Transactions hereunder, that (i) one party shall transfer to the other party Forward Collateral having a Market Value equal to a specified dollar amount or other specified threshold no later than the Margin Notice Deadline on the day such Forward Transaction is entered into by the parties or (ii) one party shall not be required to make any transfer otherwise required to be made under this Paragraph if, after giving effect to such transfer, the Market Value of the Forward Collateral held by such party would be less than a specified dollar amount or other specified threshold (which amount or threshold shall be agreed to by the parties prior to entering into any such Forward Transactions).

   (e) If any notice is given by a party to the other under subparagraph (a) of this Paragraph at or before the Margin Notice Deadline on any business day, the party receiving such notice shall transfer Forward Collateral as provided in such subparagraph no later than the close of business in the relevant market on such business day. If any such notice is given after the Margin Notice Deadline, the party receiving such notice shall transfer such Forward Collateral no later than the close of business in the relevant market on the next business day.

(f) Upon the occurrence of the Purchase Date for any Forward Transaction and the performance by the parties of their respective obligations to transfer cash and Securities on such date, any Forward Collateral in respect of such Forward Transaction, together with any Income thereon and proceeds thereof, shall be transferred by the party holding such Forward Collateral to the other party; provided, however, that neither party shall be required to transfer such Forward Collateral to the other if such transfer would result in the creation of a Net Unsecured Forward Exposure of the transferor.

(g) The Pledgor (as defined below) of Forward Collateral may, subject to agreement with and acceptance by the Pledgee (as defined below) thereof, substitute other Securities reasonably acceptable to the Pledgee for any Securities Forward Collateral. Such substitution shall be made by transfer to the Pledgee of such other Securities and transfer to the Pledgor of such Securities Forward Collateral. After substitution, the substituted Securities shall constitute Forward Collateral.

3. **Security Interest.**

(a) In addition to the rights granted to the parties under Paragraph 6 of the Agreement, each party ("Pledgor") hereby pledges to the other party ("Pledgee") as security for the performance of its obligations hereunder, and grants Pledgee a security interest in and right of setoff against, any Forward Collateral and any other cash, Securities or property, and all proceeds of any of the foregoing, transferred by or on behalf of Pledgor to Pledgee or due from Pledgee to Pledgor in connection with the Agreement and the Forward Transactions hereunder.

(b) Unless otherwise agreed by the parties, a party to whom Forward Collateral has been transferred shall have the right to engage in repurchase transactions with Forward Collateral or otherwise sell, transfer, pledge or hypothecate Forward Collateral, including in respect of loans or other extensions of credit to such party that may be in amounts greater than the Forward Collateral such party is entitled to as security for obligations hereunder, and that may extend for periods of time longer than the periods during which such party is entitled to Forward Collateral as security for obligations hereunder; provided, however, that no such transaction shall relieve such party of its obligations to transfer Forward Collateral pursuant to Paragraph 2 or 4 of this Annex V or Paragraph 11 of the Agreement.

4. **Events of Default.**

(a) In addition to the Events of Default set forth in Paragraph 11 of the Agreement, it shall be an additional "Event of Default" if either party fails, after one business day's notice, to perform any covenant or obligation required to be performed by it under Paragraph 2 or any other provision of this Annex.

(b) In addition to the other rights of a nondefaulting party under Paragraphs 11 and 12 of the Agreement, if the nondefaulting party exercised or is deemed to have exercised the option referred to in Paragraph 11(a) of the Agreement:

(i) The nondefaulting party, without prior notice to the defaulting party, may (A) immediately sell, in a recognized market (or otherwise in a commercially reasonable manner) at such price or prices as the nondefaulting party may reasonably deem satisfactory, any or all Forward Collateral subject to any or all Forward Transactions hereunder and apply the proceeds thereof to any amounts owing by the defaulting party hereunder or (B) in its sole discretion elect, in lieu of selling all or a portion of such Forward Collateral, to give the defaulting party credit for such Forward Collateral in an amount equal to the price therefor on such date, obtained from a generally recognized source or the most recent closing bid quotation from such a source, against any amounts owing by the defaulting party hereunder.

(ii) Any Forward Collateral held by the defaulting party, together with any Income thereon and proceeds thereof, shall be immediately transferred by the defaulting party to the nondefaulting party. The nondefaulting party may, at its option (which option shall be deemed to have been exercised immediately upon the occurrence of an Act of Insolvency), and without prior notice to the defaulting party, (i) immediately purchase, in a recognized market (or otherwise in a commercially reasonable manner) at such price or prices as the nondefaulting party may reasonably deem satisfactory, securities ("Replacement Securities") of the same class and amount as any Securities Forward Collateral that is not delivered by the defaulting party to the nondefaulting party as required hereunder or (ii) in its sole discretion elect, in lieu of purchasing Replacement Securities, to be deemed to have purchased Replacement Securities at the price therefor on such date, obtained from a generally recognized source or the most recent closing offer quotation from such a source, whereupon the defaulting party shall be liable for

the price of such Replacement Securities together with the amount of any cash Forward Collateral not delivered by the defaulting party to the nondefaulting party as required hereunder.

Unless otherwise provided in Annex I, the parties acknowledge and agree that (1) the Forward Collateral subject to any Forward Transaction hereunder are instruments traded in a recognized market, (2) in the absence of a generally recognized source for prices or bid quotations for any Forward Collateral, the nondefaulting party may establish the source therefor in its sole discretion and (3) all prices and bids shall be determined together with accrued Income (except to the extent contrary to market practice with respect to the relevant Forward Collateral).

5. **No Waivers,** Etc. Without limitation of the provisions of Paragraph 17 of the Agreement, the failure to give a notice pursuant to subparagraph (a), (b), (c) or (d) of Paragraph 2 of this Annex V will not constitute a waiver of any right to do so at a later date.

Annex VI

Buy/Sell Back Transactions

This Annex VI forms a part of the Master Repurchase Agreement dated as of _____ , ____ (the "Agreement") between _____ and _____ . Capitalized terms used but not defined in this Annex VI shall have the meanings ascribed to them in the Agreement.

1. In the event of any conflict between the terms of this Annex VI and any other term of the Agreement, the terms of this Annex VI shall prevail.

2. Each Transaction shall be identified at the time it is entered into and in the relevant Confirmation as either a Repurchase Transaction or a Buy/Sell Back Transaction.

3. In the case of a Buy/Sell Back Transaction, the Confirmation delivered in accordance with Paragraph 3 of the Agreement may consist of a single document in respect of both of the transfers of funds against Securities which together form the Buy/Sell Back Transaction or separate Confirmations may be delivered in respect of each such transfer.

4. **Definitions.** The following definitions shall apply to Buy/Sell Back Transactions:
   (a) "Accrued Interest", with respect to any Purchased Securities subject to a Buy/Sell Back Transaction, unpaid Income that has accrued during the period from (and including) the issue date or the last Income payment date (whichever is later) in respect of such Purchased Securities to (but excluding) the date of calculation. For these purposes unpaid Income shall be deemed to accrue on a daily basis from (and including) the issue date or the last Income payment date (as the case may be) to (but excluding) the next Income payment date or the maturity date (whichever is earlier);

   (b) "Sell Back Differential", with respect to any Buy/Sell Back Transaction as of any date, the aggregate amount obtained by daily application of the Pricing Rate for such Buy/Sell Back Transaction to the Purchase Price for such Buy/Sell Back Transaction on a 360 day per year basis (unless otherwise agreed by the parties for the Transaction) for the actual number of days during the period commencing on (and including) the Purchase Date for such Buy/Sell Back Transaction and ending on (but excluding) the date of determination;

   (c) "Sell Back Price", with respect to any Buy/Sell Back Transaction:
   (i) in relation to the date originally specified by the parties as the Repurchase Date pursuant to Paragraph 2(q) of the Agreement, the price agreed by the Parties in relation to such Buy/Sell Back Transaction, and

   (ii) in any other case (including for the purposes of the application of Paragraph 4 or Paragraph 11 of the Agreement), the product of the formula (P + D) - (IR + C), where —

   P = the Purchase Price

   D = the Sell Back Differential

   IR = the amount of any Income in respect of the Purchased Securities paid by the issuer on any date falling between the Purchase Date and the Repurchase Date

   C = the aggregate amount obtained by daily application of the Pricing Rate for such Buy/Sell Back Transaction to any such Income from (and including) the date of payment by the issuer to (but excluding) the date of calculation.

5. When entering into a Buy/Sell Back Transaction the parties shall also agree on the Sell Back Price and the Pricing Rate to apply in relation to such Buy/Sell Back Transaction on the scheduled Repurchase Date. The parties shall record the Pricing Rate in at least one Confirmation applicable to such Buy/Sell Back Transaction.

6. Termination of a Buy/Sell Back Transaction shall be effected on the Repurchase Date by transfer to Seller or its agent of Purchased Securities against the payment by Seller of (i) in a case where the Repurchase Date is the date originally agreed to by the parties pursuant to Paragraph 2(q) of the Agreement, the Sell Back Price referred to in Paragraph 4(c)(i) of this Annex; and (ii) in any other case, the Sell Back Price referred to in Paragraph 4(c)(ii) of this Annex.

7. For the avoidance of doubt, the parties acknowledge and agree that the Purchase Price and the Sell Back Price in Buy/Sell Back Transactions shall include Accrued Interest (except to the extent contrary to market practice with respect to the Securities subject to such Buy/Sell Back Transaction, in which event (i) an amount equal to the Purchase Price plus Accrued Interest to the Purchase Date shall be paid to Seller on the Purchase Date and shall be used, in lieu of the Purchase Price, for calculating the Sell Back Differential, (ii) an amount equal to the Sell Back Price plus the amount of Accrued Interest to the Repurchase Date shall be paid to Buyer on the Repurchase Date, and (iii) the formula in Paragraph 4(c)(ii) of this Annex VI shall be replaced by the formula "(P + AI + D) - (IR + C)", where "AI" equals Accrued Interest to the Purchase Date).

8. Unless the parties agree in Annex I to the Agreement that a Buy/Sell Back Transaction is not to be repriced, they shall at the time of repricing agree on the Purchase Price, the Sell Back Price and the Pricing Rate applicable to such Transaction.

9. Paragraph 5 of the Agreement shall not apply to Buy/Sell Back Transactions. Seller agrees, on the date such Income is received, to pay to Buyer any Income received by Seller in respect of Purchased Securities that is paid by the issuer on any date falling between the Purchase Date and the Repurchase Date.

10. References to "Repurchase Price" throughout the Agreement shall be construed as references to "Repurchase Price or the Sell Back Price, as the case may be."

11. In 11 of the Agreement, references to the "Repurchase Prices" shall be construed as references to "Repurchase Prices and Sell Back Prices."

Annex VII

Transactions Involving Registered Investment Companies

This Annex VII (including any Schedules hereto) forms a part of the Master Repurchase Agreement dated as of _____ , ____ (the "Agreement") between _____ ("Counterparty") and each investment company identified on Schedule VII.A hereto (as such schedule may be amended from time to time) acting on behalf of its respective series or portfolios identified on such Schedule VII.A, or in the case of those investment companies for which no separate series or portfolios are identified on such Schedule VII.A, acting for and on behalf of itself (each such series, portfolio or investment company, as the case may be, hereinafter referred to as a "Fund"). In the event of any conflict between the terms of this Annex VII and any other term of the Agreement, the terms of this Annex VII shall prevail. Capitalized terms used but not defined in this Annex VII shall have the meanings ascribed to them in the Agreement.

1. **Multiple Funds.** For any Transaction in which a Fund is acting as Buyer (or Seller, as the case may be), each reference in the Agreement and this Annex VII to Buyer (or Seller, as the case may be) shall be deemed a reference solely to the particular Fund to which such Transaction relates, as identified to Seller (or Buyer, as the case may be) by the Fund and as may be specified in the Confirmation therefor. In no circumstances shall the rights, obligations or remedies of either party with respect to a particular Fund constitute a right, obligation or remedy applicable to any other Fund. Specifically, and without otherwise limiting the scope of this Paragraph: (a) the margin maintenance obligations of Buyer and Seller specified in Paragraph 4 or any other provisions of the Agreement and the single agreement provisions of Paragraph 12 of the Agreement shall be applied based solely upon Transactions entered into by a particular Fund, (b) Buyer's and Seller's remedies under the Agreement upon the occurrence of an Event of Default shall be determined as if each Fund had entered into a separate Agreement with Counterparty, and (c) Seller and Buyer shall have no right to set off claims related to Transactions entered into by a particular Fund against claims related to Transactions entered into by any other Fund.

2. **Margin Percentage**. For any Transaction in which a Fund is acting as Buyer, the Buyer's Margin Percentage shall always be equal to at least ___%, or such other percentage as the parties hereto may from time to time mutually determine; provided, that in no event shall such percentage be less than 100%. For any Transaction in which a Fund is acting as Seller, the Buyer's Margin Percentage shall be such percentage as the parties hereto may from time to time mutually determine; provided, that in no event shall such percentage be less than 100%.

3. **Confirmations.** Unless otherwise agreed, Counterparty shall promptly issue a Confirmation to the Fund pursuant to Paragraph 3 of the Agreement. Upon the transfer of substituted or Additional Purchased Securities by either party, Counterparty shall promptly provide notice to the Fund confirming such transfer.

4. **Financial Condition.** Each party represents that it has delivered the following financial information to the other party to the Agreement: in the case of a party that is a registered broker-dealer, its most recent statements required to be furnished to customers by Rule 17a- 5(c) under the 1934 Act; in the case of a party that is a Fund, its most recent audited or unaudited financial statements required to be furnished to its shareholders by Rule 30d-1 under the Investment Company Act of 1940; in the case of any other party, its most recent audited or unaudited statements of financial condition or other comparable information concerning its financial condition. Each party represents that the financial statements or information so delivered fairly reflect its financial condition and, if applicable, its net capital ratio, on the date as of which such financial statements or information were prepared. Each party agrees that it will make available and deliver to the other party, promptly upon request, all such financial statements that subsequently are required to be delivered to its customers or shareholders pursuant to Rule 17a-5(c) or Rule 30d-1, as the case may be, or, in the case of a party that is neither a registered broker-dealer nor a Fund, all such financial information that subsequently becomes available to the public. Each Fund acknowledges and agrees that it has made an independent evaluation of the creditworthiness of the other party that is required pursuant to the Investment Company Act of 1940 or the regulations thereunder. Each Fund agrees that its agreement to enter into each Transaction hereunder shall constitute an acknowledgment and agreement that it has made such an evaluation.

5. **Segregation of Purchased Securities.** Unless otherwise agreed by the parties, any transfer of Purchased Securities to a Fund shall be effected by delivery or other transfer (in the manner agreed upon pursuant to Paragraph 7 of the Agreement) to the custodian or subcustodian designated for such Fund in Schedule VII.A hereto ("Custodian") for credit to the Fund's custodial account with such Custodian. If the party effecting such transfer is the Fund's Custodian,

such party shall, unless otherwise directed by the Fund, (a) transfer and maintain such Purchased Securities to and in the Fund's custodial account with such party and (b) so indicate in a notice to the Fund.

Schedule VII.A

Supplemental Terms and Conditions of Transactions Involving Registered Investment Companies

This Schedule VII.A forms a part of Annex VII to the Master Repurchase Agreement dated as of _____ , ____ (the "Agreement") between _____ and _____ . Capitalized terms used but not defined in this Schedule VII.A shall have the meanings ascribed to them in Annex VII.

1. This Agreement is entered into by or on behalf of the following Funds, and unless otherwise indicated by the appropriate Fund in connection with a Transaction, the following Custodians are designated to receive transfers of Purchased Securities on behalf of such Funds for credit to the appropriate Fund's custodial account:

Name of Fund	Custodian

[ ]. Limitation of Liability. If the Fund is organized as a business trust (or a series thereof), the parties agree as follows: [insert appropriate language limiting liability of trustees, officers and others].

40 Broad Street
New York, NY 10004-2373
Telephone 212.440.9400
Fax 212.440.5260
www.bondmarkets.com

APPENDIX E

TEXAS PUBLIC FUNDS INVESTMENT ACT ANOWLEDGEMENTS & BROKER/DEALER QUESTIONNAIRE AND CERTIFICATION

CARROLLTON
TEXAS

BROKER/DEALER QUESTIONNAIRE

Name of Firm: _____

Address: _____

_____

_____

Phone: (_____) _____

Fax: (_____) _____

Account Representative: _____

Title: _____

CDC #: _____

Backup Representative: _____

Title: _____

CDC #: _____

Do you have a Texas office of the firm for brokerage or other services? Yes _____ No _____

Address of Texas office _____

Nature of office _____

Has the representative been given clearance by the firm to be the sole representative for the City's account? Yes _____ No _____

If yes, by whom? _____

How long has the direct representative been an institutional governmental securities broker at the firm?

_____

How long has the representative been an institutional fixed income broker? _____

Does the firm have primary dealer status with the Federal Reserve? Yes _____ No _____

How long has the firm had primary dealer status? _____

Is the firm and the account representative registered with the Texas State Securities Commission?

Yes _____ No _____ How long? _____

THIS PAGE TO BE COMPLETED BY ANY FIRM THAT DOES

NOT CURRENTLY HOLD PRIMARY DEALER STATUS.

In which market sectors does the local firm/desk specialize, if any?

_____

_____

Please identify your most directly comparable public sector clients.

_____

_____

How long has your firm been in business? _____

Is your firm a subsidiary of another firm? Yes _____ No _____

If yes, which firm? _____

What was the firm's total volume in U.S. Treasuries and Agencies for the last fiscal year?

Firm wide: $_____

Your office: $_____

Do you have full SIPC insurance coverage? Yes _____ No _____

Please provide information on a separate sheet regarding additional coverage for your customers in case of default or error.

Is your firm an inventory dealer? Yes _____ No _____

If yes, do you take a position in securities in which you sell or buy? _____

How much excess capital does your firm maintain? _____

Through which firm do you clear? _____

Do you clear on a fully disclosed basis, i.e., will the clearing firm be acting as principal on the transaction? Yes _____ No _____

Please discuss your primary banking relationship(s) and your lines of credit.

_____

_____

_____

Please attach a separate sheet with your full delivery instructions.

BROKER/DEALER
CERTIFICATION

I hereby certify that I have personally read and understand the investment policies of the City of Carrollton (the "Policy"), and confirm that our firm has implemented reasonable procedures and controls designed to prevent our recommendation of investment transactions that are prohibited by the Policy or Section 2256.005(k) of the Texas Public Funds Investment Act. Investment recommendations provided by our firm to the City of Carrollton will be limited to investments that are permitted by the Policy and reasonably believed by us to not include recommendations of investment activities arising out of investment transactions conducted between the entity and the City of Carrollton that are prohibited by the investment guidelines.

All the sales personnel of this firm dealing with the City of Carrollton's account have been informed and will be routinely informed of the City's investment horizons, limitations, strategy and risk constraints, whenever we are so informed in writing.

This firm pledges exercise reasonable care in informing the City of reasonably foreseeable material risks associated with financial transactions recommended by our firm. In addition to this certification, this firm will supply the following to the City:

1) Audited Financial Statements
2) Proof of Registration with the Texas State Securities Board
3) Proof of Financial Industry Regulatory (FINRA) Authority membership
4) Resumes of the Sales Personnel dealing with the City of Carrollton

_____
(Firm)

Primary Representative:

_____
(Signature)

_____
(Name)

_____
(Title)

_____
(Date)

Registered Principal:

_____
(Signature)

_____
(Name)

_____
(Title)

_____
(Date)

TEXAS PUBLIC FUNDS INVESTMENT ACT ACKNOWLEDGEMENTS

These Acknowledgements are executed on behalf of the City of Carrollton ("Investor") and ("Business Organization") pursuant to the Public Funds Investment Act, Chapter 2256, Government Code, Texas Codes Annotated (the "Act") in connection with investment transactions conducted between the Investor and the Business Organization.

Acknowledgment by Investor

The undersigned investment officer of the Investor ("Investment Officer") hereby acknowledges, represents, and agrees on behalf of the Investor that:

(i) The Investment Officer (a) has been duly designated by official action of the governing body of the Investor to act as its Investment Officer pursuant to the Act, (b) is vested with full power and authority under the Act and other applicable law to engage in investment activities on behalf of the Investor, and (c) is duly authorized to execute this Acknowledgement on behalf of the Investor.

(ii) Pursuant to the Act, the governing body of the Investor has duly adopted a written investment policy which complies with the Act, including an investment strategy (as the same may be amended, the "Investment Policy"), and the Investment Officer (a) has furnished a true and correct copy of the Investment Policy to the Business Organization, and (b) will notify the Business Organization of any revision of or amendment to the Investment Policy. The Business Organization shall be entitled to rely upon the most recent version of the Investment Policy furnished by the Investment Officer until provided with an amended version.

(iii) The list of investments authorized by the City of Carrollton are detailed in Section VI, Authorized Investments, in the Investment Policy. The Investment Officer understands that these investments may be available from the Business Organization. The authorized investment list may be amended from time to time by the City and provided to the Business Organization.

(iv) In connection with any investment transaction between the Business Organization and the Investor, the Business Organization is not responsible for assuring compliance with those aspects of the Investment Policy over which the Business Organization has no control or knowledge, such as restrictions as to diversity and average maturity, or which require an interpretation of subjective investment standards.

INVESTMENT OFFICER

Signature: _____

Name: _____

Title: _____

Date: _____

TEXAS PUBLIC FUNDS INVESTMENT ACT ACKNOWLEDGEMENTS
(continued)

Acknowledgement by Business Organization

In reliance upon the foregoing "Acknowledgement by Investor", the undersigned qualified representative of the Business Organization ("Qualified Representative") acknowledges, represents, and agrees on behalf of the Business Organization that:

(i) The Qualified Representative (a) is registered under the rules of the Financial Industry Regulatory Authority (FINRA) or appropriate regulatory authority, (b) is the duly appointed and acting officer of the Business Organization, holding the office set forth underneath its name below, and (c) is duly authorized to execute this certification on behalf of the Business Organization.

(ii) The Qualified Representative has received and reviewed the Investment Policy furnished by the Investment Officer.

(iii) The Business Organization will provide the Investment Officer with periodic account and other reasonably requested information that will assist the Investment Officer in carrying out his or her responsibility to make investment decisions consistent with the Investment Policy.

(iv) The Business Organization will not sell to the Investor investments other than those in Section VI, Authorized Investments, of the City of Carrollton Investment Policy, which may be amended from time to time by the Investor and provided to the Business Organization.

QUALIFIED REPRESENTATIVE	**QUALIFIED REPRESENTATIVE**
Signature: _____	Signature: _____
Name: _____	Name: _____
Title: _____	Title: _____
Date: _____	Date: _____

Trading Authorization

The following designated officers of the City of Carrollton, Texas ("Customer") are hereby authorized to open an Account or Accounts with _____ for the purpose of engaging in transactions to purchase, sell, assign, transfer or otherwise enter into agreements, contracts, commitments or similar arrangements, for cash or forward settlement either mandatory or optional or both for the following types of securities: treasuries, agencies and instrumentalities, agency-issued collateralized mortgage obligations, prime-rated commercial paper, prime-rated domestic bankers acceptances, certificates of deposit that are collateralized or F.D.I.C. insured, municipal bonds rated A or better by a national rating agency, SEC-regulated money market funds and government pools. Repurchase agreements and reverse repurchase agreements may be transacted with firms with which the City has signed a master repurchase agreement. See City Investment Policy and Texas Public Funds Investment Act for complete description of authorized securities.

Customer is expressly authorized to trade securities in the short term. Trading means that the customer may purchase or sell securities with the intent to recognize gains or losses based upon short term movements in market price, rather than to purchase securities to hold in its portfolio until maturity or for long term investment. Customer stipulates that this account is not a discretionary account and that all decisions to buy and sell are made by the customer.

Name	Signature	Title

Additionally, for all accounts authorized above, the designated officers are authorized to commit, bind and obligate said City of Carrollton, Texas for Transactions, to execute Transactions and in connection therewith to deliver securities and monies, to sign and deliver agreements, commitments and confirmations and other necessary, desirable or customary document, and that _____ is authorized to act upon any verbal or written orders and instructions from the designated officers in connection with such accounts and transactions.

I, _____, do hereby certify that I am the City Manager of the City of Carrollton, Texas and am duly authorized to execute this certificate on behalf of said City of Carrollton, Texas.

_____ _____
City Manager Date

_____ _____
City Secretary Date

(Seal)

RESOLUTION NO. _____

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF CARROLLTON, TEXAS, ADOPTING THE INVESTMENT POLICY AND INVESTMENT STRATEGIES AND APPROVING SAID POLICY AS FULFILLMENT OF CHAPTERS 2256.005 AND 2256.025, GOVERNMENT CODE, THE PUBLIC FUNDS INVESTMENT ACT; AND PROVIDING AN EFFECTIVE DATE.

NOW, THEREFORE, BE IT RESOLVED BY THE COUNCIL OF THE CITY OF CARROLLTON, TEXAS, THAT:

SECTION 1

The City of Carrollton hereby adopts the investment policy and investment strategies, as fulfillment of Chapter 2256, Government Code, Public Funds Investment Act.

SECTION 2

The City Manager is hereby authorized to take those steps reasonable and necessary to comply with the intent of this Resolution.

SECTION 3

This Resolution shall become effective immediately from and after its passage.

DULY PASSED AND APPROVED by the City Council of the City of Carrollton, Texas this 7th day of November, 2017.

_____
Kevin Falconer, Mayor

ATTEST:

_____
Laurie Garber, City Secretary

APPROVED AS TO FORM:

_____
Meredith A. Ladd, City Attorney

APPROVED AS TO CONTENT:

_____
Robert B. Scott, CFO/ACM