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OFFICE OF THE STATE TREASURER  
CUSTODY OR CUSTODY &  
SECURITIES LENDING

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***REQUEST FOR PROPOSAL***

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FEBRUARY 2, 2011

*JAMES MCINTIRE*  
*WASHINGTON STATE TREASURER*

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**SUMMARY INFORMATION  
AND PROPOSAL RETURN COVER PAGE**

RFP NUMBER: OSTCSL-11-001

ISSUE DATE: February 2, 2011

TITLE: OST CUSTODY OR CUSTODY AND SECURITIES LENDING

ISSUING AGENCY: Office of the State Treasurer  
P.O. Box 40200  
Olympia, WA 98504-0200  
Douglas D. Extine  
RFP Coordinator  
Phone: (360) 902-9012  
Fax: (360) 704-5112  
e-mail: doug.extine@tre.wa.gov

CLOSING DATE: March 11, 2011

AGREEMENT PERIOD: The term for the agreement will cover a four-year period, commencing on October 1, 2011 through September 30, 2015, with the possibility of a single 2-year extension.

SUBMISSION AGREEMENT: In compliance with this Request for Proposal, and to all the conditions imposed herein, the undersigned agrees to furnish custody or custody and securities lending services in accordance with the attached signed proposal, or mutually agreed upon subsequent negotiations.

NAME AND ADDRESS OF FIRM: \_\_\_\_\_  
\_\_\_\_\_

DATE: \_\_\_\_\_

BY: \_\_\_\_\_  
(Signature in Ink)

TITLE: \_\_\_\_\_

TELEPHONE NUMBER: (\_\_\_\_\_)\_\_\_\_\_

E-MAIL ADDRESS: (\_\_\_\_\_)\_\_\_\_\_

# SECTION I INTRODUCTION

## I-1 BACKGROUND

As of December 31, 2010, the investment portfolios managed by the Office of the State Treasurer had a combined market value of approximately \$12.2 billion.

The Treasurer is a constitutional officer of the state of Washington. The Treasurer and his staff comprise the Office of the State Treasurer (hereinafter OST or Treasurer). The Treasurer manages the investments for three accounts: the state Treasury/Trust cash management account, a Local Government Investment Pool, and a U.S. Department of Energy trust account on behalf of the Washington State Department of Labor and Industries.

The Treasurer is also chair of the Public Deposit Protection Commission (PDPC). The PDPC was created by the state legislature to provide a means of protecting public deposits from loss. All public depositories are required to collateralize their public deposits at certain levels and the resulting collateral pool is available to ensure that in the event of a failure of a public depository, no public funds would be lost.

### A. OST INVESTMENTS

Pursuant to statute and OST policies, the OST manages all investments internally and invests in the following: U.S. Government and Agency securities, repurchase agreements (repos), reverse repurchase agreements, and certificates of deposit. Certificates of deposit are done only with qualified, in-state public depositories and are non-negotiable. Tri-party repos are currently being researched as a possible investment.

**Local Government Investment Pool (LGIP) Portfolio** – The LGIP operates comparable to a Rule 2a-7 money market fund. The over 400 participating local governments in the state are allowed 100% liquidity on a daily basis. Same-day transactions of any size may be conducted any time prior to 9 a.m. Pacific Time, with a final cutoff for transactions of 10 a.m. Pacific Time. The maximum average maturity and maximum final maturity are 60 and 397 days, respectively. The investment holdings of the LGIP are generally repos, bank deposits, US Treasury Bills and Notes, and Agency discount notes, coupons, and floating rate notes.

**Treasury/Trust Portfolio** – State statutes allow a comingling of all accounts in the state treasury or custody of the state treasurer for cash management and investment purposes. This Treasury/Trust portfolio is separated into sub-portfolios, each managed by a different portfolio manager. Earnings are calculated and distributed on an accrued basis. While the earnings of all sub-portfolios are pooled and distributed monthly to the separate accounts, performance of the sub-portfolios is monitored individually, with each having a different performance benchmark. Objectives are set by portfolio as follows:

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RFP#: OSTCSL-11-001

*Liquidity portfolio* - The objective of this portfolio is to meet the liquidity needs of all treasury/trust accounts. All daily cash requirements are to be met by assets in this portfolio. Additionally, the liquidity portfolio serves as a short-term investment fund (STIF) for any cash holdings of the other sub-portfolios. Property tax payments in May/June and November/December provide for positive cash flows during those months, followed by months of negative cash flows. Consequently, the liquidity portfolio has significant volatility in balances, going from near zero to amounts well in excess of \$1 billion. Investment holdings of this portfolio are generally repos, bank deposits and discount notes.

*Core portfolio* – Cash not anticipated to be needed to meet cash flow requirements for the foreseeable future is invested in the core portfolio. While the size of the core portfolio may change over time, due to long-term cash forecasts, immediate liquidity is not a requirement for this portfolio. The maximum maturity for this portfolio is ten years. The duration of this portfolio is approximately two years. The current size of the core portfolio is \$1.7 billion. Investment holdings of this portfolio are US Government and Agency securities.

*Sub portfolios* - While investable balances have proven reasonably predictable, there is always the chance the economic or political environment could change in dramatic and unanticipated ways. OST has in the past further divided the core portfolio into as many as 3 other sub-portfolios. While there are no immediate plans to do so, re-establish any of those sub-portfolios it is quite likely that this will occur at some point in the future. The size of these sub-portfolios would be can be approximately \$100 to 300 million each. Investment holdings of this portfolio are generally US Government and Agency securities.

**US Department of Energy/Washington State Labor and Industries Portfolio** – This is a small portfolio of about \$3.9 million that currently contains 4 US Treasury securities. There is generally one purchase per month.

**OST Investment Policies** - The Treasury/Trust and LGIP investment policies as well as a publication outlining eligible investments for public funds in Washington State are available at [www.tre.wa.gov](http://www.tre.wa.gov) under the LGIP and Investments tabs.

**Reinvestment guidelines for cash collateral associated with securities lending** – Cash collateral associated with a lending program must be separately invested for each OST portfolio, i.e., participation in investment pools or money market funds is not allowed. Additionally, the restrictions of the Treasury/Trust and LGIP investment policies also apply to the reinvestment of cash collateral associated with securities lending. For example, per dealer limits on repo apply to repo done by OST and repo done by the lending agent.

**Treasury/Trust and LGIP Portfolio Characteristics** – Both the Treasury/Trust and LGIP portfolios experience significant volatility in cash flows. Accordingly, both

portfolios heavily utilize overnight repos. Additionally, the portfolios are actively managed. Therefore, the trade volume is rather heavy. The table below outlines trade volumes for the last 5 fiscal years. The number of repo transactions in 2008 and 2009 was significantly reduced. During that time period OST found it advantageous to utilize demand deposit accounts for liquidity investing. While we are still currently utilizing demand deposit accounts our liquidity is primarily coming through the use of repos.

The numbers do not include maturities nor do they include trade volumes associated with OST's securities lending program.

	<b>Total Transactions</b>				
	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
<b>Purchases</b>	<b>681</b>	<b>660</b>	<b>750</b>	<b>822</b>	<b>841</b>
<b>Sales</b>	<b>391</b>	<b>327</b>	<b>528</b>	<b>828</b>	<b>819</b>
<b>Repo</b>	<b>1172</b>	<b>1072</b>	<b>581</b>	<b>129</b>	<b>1007</b>

For representative listings of the holdings of the Treasury/Trust and LGIP portfolios see Exhibits B and C.

## **B. INITIATIVES**

**Repurchase Agreements** – OST currently utilizes both overnight and term repo on a deliverable basis. We are seriously considering a migration to tri-party repo. As there is currently no timetable for a possible change, vendors should have the capability to handle repos on both a deliverable and tri-party basis.

**Extended Asset Fund** – In addition to the current LGIP, OST is in the process of developing a second pooled option for local governments, called the Extended Asset Fund. The goal of this fund is to provide local governments with an intermediate investment option that would provide potentially higher yields than a fund utilizing 2a-7 guidelines. This fund would operate on a total return basis, and would be subject to a variable Net Asset Value. Our goal is to have the Extended Asset Fund fully developed by the end of May 2011. However, we may wait to roll out the fund until we feel the market environment proves more favorable.

## **C. RELATIONSHIPS WITH OTHER STATE AGENCIES AND LOCAL GOVERNMENT AND RECORD KEEPING REQUIREMENTS**

The Office of Financial Management (OFM) is the primary authority for the State's accounting and reporting requirements. OFM maintains the State of Washington Policies, Regulations, and Procedures manual for accounting and reporting and has

adopted the pronouncements of the Governmental Accounting Standards Board (GASB) which is the accepted standard-setting body for establishing governmental accounting and financial reporting principles nationally.

The State Auditor's Office (SAO) conducts financial and compliance audits of all state agencies. SAO is responsible for the on-going assessment of the adequacy of the state's internal control structure for ensuring that the assets of the state are protected from loss, theft or misuse, and that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles, OFM standards and state regulations. Additionally, an outside independent accounting firm audits the Local Government Investment Pool.

The Information Services Board and the Department of Information Services (DIS) are responsible for developing and maintaining the policies, standards, and guidelines for computing architecture in the Washington State government.

If authorized by local ordinance or resolution, a local government official may place funds into the LGIP for investment and reinvestment by the Treasurer. Pursuant to OST policy, local government representatives serve on a twelve-member Advisory Committee for the LGIP.

## **I-2 PURPOSE**

The current custody and securities lending agreements with Union Bank are scheduled to terminate on September 30, 2011. Therefore, the Treasurer is seeking a qualified firm to provide custody, cash management and possibly securities lending services for OST managed portfolios. While OST is currently utilizing a custody lending program, the outcome of this RFP may be the selection of a custody provider only, with OST electing to pursue other avenues for securities lending. The firm may provide securities lending services for U.S. Treasury and Agency securities, and as such would be a fiduciary of the OST. RFP responses must provide OST with the information necessary to assess the ability of your organization to meet the needs of the Treasurer in providing master custody or master custody and securities lending services.

## **I-3 PROCEDURE**

A standard RFP process is being employed to select a firm for providing custody or custody and securities lending services. The RFP will be issued, responses evaluated, and site visits may be conducted, culminating in the selection of the custody or custody and securities lending service provider.

The Treasurer intends to enter into a four-year agreement with the successful vendor with the possibility of a single two-year extension. The fee schedule would apply for the initial four years, with annual adjustments, to any or all items, after the first two years, no greater than the national Consumer Price Index (CPI) as published by DRI/McGraw Hill for the preceding calendar year.

## SECTION II RFP PROCESS

### II-1 RFP COORDINATOR

Upon release of this RFP, all responding financial institutions' communications must be directed to the RFP Coordinator listed below. Disqualification from consideration for the custody and securities lending search could result if contact is made with any OST staff regarding the response or evaluation of this RFP. However, approval to communicate with a member of the OST staff may be granted by the RFP Coordinator.

RFP Coordinator: Douglas D. Extine  
Office of the State Treasurer  
Legislative Building, 416 Sid Snyder Avenue SW, Room 230  
P.O. Box 40200  
Olympia, WA 98504-0200  
Phone: (360) 902-9012  
Fax: (360) 704-5112  
e-mail: doug.extine@tre.wa.gov

### II-2 RFP SCHEDULE

<u>Event</u>	<u>Date</u>
• Release RFP	February 2, 2011
• Deadline – Letter of Intent to Respond	February 9, 2011
• Deadline – Questions	February 15, 2011
• Deadline – Proposals	March 11, 2011
• Evaluate Vendor Responses	March 12 – March 25, 2011
• Site Visits (if necessary)	March 30 – April 8, 2011
• Name Apparent Successful Financial Institution	April 22, 2011
• Agreement Negotiation	
• Designation of Custody and Lending Provider	
• Transition Period	
• Conversion Complete	September 30, 2011

### II-3 SELECTION STEPS (outlined in Selection Schedule above – Section II-2)

#### A. Release RFP Document

Release RFP via a posting on the OST web site at <http://tre.wa.gov>.

#### B. Letter of Intent to Respond

Financial institutions intending to submit a proposal must mail or fax a written Letter of Intent to Respond to the RFP Coordinator. The letter must be received by 4:00 P.M., PST, Wednesday, February 9, 2011, and include the following information: .

Custody or Custody & Securities Lending RFP  
RFP#: OSTCSL-11-001

Institution name

Contact name of person preparing proposal

Telephone number

Fax number

E-mail address

This information allows OST to distribute additional information, if necessary, to potential respondents. Failure to submit the Letter of Intent to Respond shall result in elimination from further consideration.

**C. Questions**

All questions regarding the RFP must be received in writing by 2:00 P.M. PST, Tuesday, February 15, 2011. Written responses to all of the questions submitted to OST will be available to all institutions that submit a Letter of Intent to Respond by the deadline. Responses to all questions will be posted on the OST web site. It is the responsibility of each bidder to check the website for this information. Send inquiries to the RFP Coordinator.

**D. RFP Responses Due**

The RFP Coordinator must receive qualified institutions' responses to the RFP by 2:00 p.m., PST, Friday, March 11, 2011. Qualified institutions will be disqualified from review if this deadline is not met. Qualified vendors will submit their proposals, including proposed fees, along with payment schedules, and comments regarding the terms of the draft agreement.

**E. Evaluate Vendor Responses**

OST will evaluate the responses, as described in Section V.

**F. Conduct Site Visits**

If it is deemed necessary, OST may select up to three vendors for site visits. The site visits are tentatively scheduled to take place in early April.

**G. Announce Apparent Successful Financial Institution**

Based upon the formal response to the RFP, and information gathered during the site visits, the Apparent Successful Financial Institution will be selected and announced.

**H. Agreement Negotiation**

OST representatives will select the financial institution that most closely meets the requirements on the basis of the evaluation points included in Section V-4 of this RFP. When the apparent successful financial institution is selected, an agreement will be negotiated and signed.

**I. Designation of Custody or Custody and Lending Provider**

After successful agreement negotiations have been completed, the apparent successful financial institution will be awarded the agreement for custody or custody and securities lending services for OST.

The term of the agreement will cover a four-year period, commencing on October 1, 2011 through September 30, 2015. The term of this agreement may be extended for additional contract periods or portions thereof, whereby the total contract period shall not exceed six (6) years.

#### **II-4 RFP MODIFICATION**

OST reserves the right to amend the RFP, revise the RFP Schedule or issue addenda to the RFP at any time. OST also reserves the right to cancel or reissue the RFP in whole or in part, for any reason, at the sole discretion of the OST at any time prior to the execution of an agreement.

If the RFP is revised, OST will provide an addendum to all financial institutions that submit a Letter of Intent to Respond by the deadline. In addition, OST will present amendments and clarifications on its website (<http://www.tre.wa.gov/>). It is the responsibility of each bidder to check the website for this information. All responses to this RFP shall be based on the material contained in this RFP and any amendments made to the RFP.

#### **II-5 ERRORS IN RESPONSE**

The State will not be liable for any errors in proposals from financial institutions. Financial institutions will not be allowed to correct, amend, or resubmit proposal documents after the submission deadline. OST reserves the right to make corrections or amendments to a response due to errors identified by the State or the financial institution. This type of amendment will only be allowed for such errors as typing, transposition, omission, or any other technical error. All changes must be coordinated in writing with, authorized by, and made by the RFP Coordinator. Financial institutions are liable for all errors or omissions contained in their responses.

#### **II-6 RIGHTS OF STATE**

OST reserves the right to (i) reject any and all proposals, (ii) waive any minor informalities in a proposal, (iii) schedule interviews, (iv) request clarifications or additional information from any respondent, (v) waive specific terms and conditions contained in this RFP, and (vi) effect any agreement deemed by OST to be in the State's best interest with one or more financial institutions. Nothing in this RFP, the proposals, or OST's acceptance of any proposal in whole or in part shall oblige OST to complete negotiation with the related financial institution. If OST and the Apparent Successful Financial Institution fail to negotiate an agreement within 30 days of selection of Apparent Successful Financial Institution for any reason, OST reserves the right to negotiate a contract with the next most qualified financial institution or to reissue the RFP.

#### **II-7 PUBLIC RECORDS**

All proposals, including attachments and other inclusions, become public records subject to the public disclosure law of Washington state upon receipt. Proposals shall be deemed disclosable pursuant to Chapter 42.17 RCW except as explicitly exempted by law. Respondents should mark materials claimed to be exempt from disclosure as "confidential." The proposal's cover letter should identify specific material claimed to be exempt, corresponding page number(s), and a statement of basis for each claim. Materials marked confidential may still be subject to public disclosure unless a Washington court determines that the specific materials are indeed exempt from disclosure pursuant to Washington law.

If OST receives an official request to view a financial institution’s proposal, OST will respond in accordance with Title 42.56 Revised Code of Washington. If any requested information marked as “confidential” does not clearly meet one of the enumerated exemptions from disclosure as set forth in that statute, OST will give notice of the request to the affected financial institution that the material will be made available in ten (10) business days unless the affected financial institution seeks and obtains a court order restraining the State from disclosing such information.

Failure to label materials as “confidential” or failure to timely respond after notice of request has been given shall be deemed a waiver by the respondent of any claim that such materials are exempt from disclosure.

## **II-8 INCURRED COSTS**

The State will not reimburse financial institutions for any costs associated with preparation or submittal of any proposal or for any travel and/or per diem expenses incurred in any presentations of such responses.

## **II-9 SINGLE RESPONSE**

If the State receives only one response to this RFP, it may be deemed a failure of competition and, at the sole option of the State, the RFP may be canceled. Likewise, receipt of only one response may allow the State to claim it as a valid sole source acquisition of services.

## **II-10 PUBLICITY**

The apparent successful financial institution(s) shall not release any notices, press releases, reports, or news or make any statement to the public, press or other media relating to matters pertinent to the proposal or contract without prior approval from the State.

## **II-11 PROTEST PROCEDURES**

In the event a respondent protests this RFP process or the selection of an apparent successful financial institution(s), the respondent shall follow the procedures set forth in the Washington Administrative Code (WAC) 236-48-141 through 143. Protests shall be resolved in accordance with above referenced WAC.

# **SECTION III EVALUATION PROCESS**

Proposals will be evaluated strictly in accordance with the requirements set forth in this RFP and any addenda issued. Evaluators will consider how well a proposal meets all such requirements. Responses must be clear, complete, and presented in the order specified so evaluators can adequately understand all aspects of the proposal. Financial institutions that submit incomplete proposals will be eliminated from further consideration.

OST will select the apparent successful financial institution(s) based on the proposal that, in their opinion, best meets the RFP requirements and is in the best interest of the State.

**III-1 EVALUATION COMMITTEE** – All proposals will be reviewed by the Evaluation Committee. The committee will consist of OST personnel familiar with the services requested. The committee will consider how well the financial institution’s response meets all requirements as described.

**III-2 EVALUATION CRITERIA** – The Evaluation Committee will evaluate proposals based on their technical merits and cost factors. The following criteria, not listed in order of significance, including but not limited to the following will be used to evaluate proposals.

- Compliance with RFP requirements
- Financial institution’s qualifications and experience in providing required services
- Qualifications and relevant experience of personnel assigned
- Cost of services
- References
- Degree of acceptance of contract terms
- Prior experience with the financial institution

These criteria, combined with information obtained from interviews and other sources, if any, will be used to determine the successful financial institution(s).

*Note: Cost will not be the sole determining factor in the selection.*

**III-3 SITE VISITS** - After the initial evaluation of responses and prior to the final award of a contract(s), the OST Evaluation Committee may conduct site visits to the top finalists for inspection and/or demonstration. Site visits, if deemed necessary are tentatively scheduled for early April 2011.

**III-4 ADDITIONAL REQUESTS** – The Evaluation Committee reserves the right, during this process, to request additional information. Financial institutions will be given at least five (5) working days from notification to provide requested information.

**III-5 FINAL SELECTION** - OST reserves the right, at its sole discretion, to reject any or all proposals for any reason prior to the execution of the agreement with no penalty to the State. The issuance of this RFP does not compel OST to sign an agreement. The final selection, if any, will be the proposal that, in the opinion of OST, best meets the requirements set forth in this RFP and is in the best interest of OST.

**III-6 APPARENT SUCCESSFUL FINANCIAL INSTITUTION** - OST representatives will select the financial institution that most closely meets the requirements on the basis of the evaluation points included in Section V-4 of this RFP. When the apparent successful financial institution is selected, an agreement will be negotiated and signed.

The agreement would incorporate all the requirements, terms, and conditions of this RFP and the apparent successful financial institution’s proposal, as negotiated. If OST fails to negotiate an

agreement with the apparent successful financial institution, OST reserves the right to negotiate an agreement with the next most qualified financial institution, or to reissue the RFP.

## **SECTION IV AGREEMENT SPECIFICATIONS**

### **IV-1 AGREEMENT NEGOTIATION**

OST shall conduct negotiations with the financial institution that has most closely met the requirements on the basis of the evaluation points. If OST and the apparent successful financial institution fail to negotiate an agreement for any reason within 30 days, OST reserves the right to negotiate an agreement with the next most qualified financial institution, or to reissue the RFP.

As indicated in Section IV-6, agreement negotiation will be limited to fees, those provisions the apparent successful financial institution did not accept in the RFP phase and so indicated at that time, and to technical or clarifying changes, as opposed to substantive issues. The general terms and conditions of the proposed agreement, located in Attachment B, will be available on the OST web-site.

### **IV-2 PERIOD OF PERFORMANCE**

The term of the agreement will cover a four-year period, commencing on October 1, 2011 through September 30, 2015. The term of this agreement may be extended for additional contract periods or portions thereof, whereby the total contract period shall not exceed six (6) years.

The fee schedule would apply for the initial four-year period, with annual adjustments, to any or all items, allowable after the first two years no greater than the national Consumer Price Index (CPI) as published by DRI/McGraw Hill for the preceding calendar year. The limitation would continue if the term of the agreement were extended.

## **SECTION V PROPOSAL PREPARATION AND CONTENT REQUIREMENTS**

### **V-1 PROPOSAL PREPARATION**

- Financial institutions must submit seven (7) copies of the proposal. One (1) copy must have original signatures and six (6) copies can have photocopied signatures.
- The copy containing original signatures must be unbound and must be marked “Master Copy.” The original copy of the proposal must be accompanied by the “Summary Information and Proposal Return Cover Page” (page 2 of this RFP) which has been completed and signed by the financial institution’s representative who is authorized to bind the financial institution contractually.

- Each Copy of the proposal must be bound and in one document. This bound document must include all supplemental material, excluding the regulatory audit reports requested in the Custody and Securities Lending Questionnaire.
- Responses are to be prepared on standard 8 1/2 x 11 paper; however, 11 x 14 paper is permissible for charts, spreadsheets, etc.

## **V-2 SUBMISSION OF PROPOSAL**

- Late proposals will not be accepted, nor will time extensions be granted. It is the sole responsibility of the financial institution to ensure receipt of proposals by the RFP Coordinator by the specified date and time and at the specified location.
- All proposals and accompanying documentation become the property of OST and will not be returned.
- Proposals that are substantially incomplete will be disqualified from further consideration.
- The response to the questionnaire must be received at the following address by 2:00 p.m. Pacific Time, Friday, March 11, 2011:

Douglas D. Extine, RFP Coordinator  
Office of the State Treasurer  
Legislative Building, Room 230  
416 Sid Snyder Avenue SW  
Olympia, WA 98504-0200

## **V-3 PROPOSAL CONTENT**

- The financial institution is required to answer each question in Attachment A – Custody and Securities Lending Questionnaire.
- Responding financial institutions must provide answers to the questions by reiterating the number and text of the question in sequence and providing answers immediately following each question. To assist in the evaluation process, each answer should start on the same page as the question.

## **V-4 SUPPLEMENTAL MATERIAL**

The financial institution may submit materials such as brochures and articles that the financial institution believes to be helpful. However, such materials will not qualify as substitutes for direct answers to the response questions. As mentioned in V-1, Proposal Preparation, each copy of the proposal must be bound and in one document. This bound document must include all supplemental material, excluding the regulatory audit reports requested in the Custody and Securities Lending Questionnaire.

## **V-5 CONTRACTUAL REQUIREMENTS**

Before a financial institution will be designated as the custody and securities lending provider, the Treasurer and the apparent successful financial institution will negotiate agreements. The final agreements shall be essentially similar in both form and substance

to the exemplar agreements found in Attachments B and C. To be deemed responsive all RFP responses must indicate acceptance of all provisions as proposed or explicitly indicate those provisions the financial institution will not accept. Respondents must also indicate in the responses any additional language, amendments, or attachments they propose for consideration. OST reserves the right to name an apparent successful financial institution while reserving the right to reject any additional language, amendments, or attachments that institution proposed for consideration. Contract negotiations shall be limited to fees, any provisions indicated in a financial institution's contractual response, and/or revisions proposed for clarifications or of a technical nature.

#### **V-6 CLARITY OF PROPOSAL**

Proposals should be prepared simply and economically, providing straightforward, concise descriptions of capabilities to satisfy the requirements of the RFP. Emphasis should be placed on completeness and clarity of content.

#### **V-7 ORGANIZATION OF PROPOSAL**

Proposals should be organized in the order in which the requirements are presented in Section V-9, "Proposal Contents" of this RFP. All pages of the proposal should be numbered, and each paragraph in the proposal should reference the paragraph number of the corresponding section of the RFP. The proposal should contain a table of contents, which cross-references the RFP requirements. Additional information which the financial institution wishes to present that does not fall within any of the requirements of the RFP should be inserted at an appropriate place or be attached at the end of the proposal and designated as additional material.

#### **V-8 SINGLE VOLUME**

Each copy of the proposal shall be contained in a single volume. All documentation submitted with the proposal should be contained in that single volume.

#### **V-9 ORDER OF PROPOSAL**

Financial institution's proposal must address each of the requirements noted below in the same order as listed to be considered responsive. The proposal should be as thorough and detailed as possible so that the OST can properly evaluate your organization's capability to provide the required services and the proposed pricing structure. Proposals that merely state that the firm will conduct the services in accordance with the respective sections shall be considered non-responsive to this request.

Responses must include the "Summary Information and Proposal Return Cover Page" and must address each question in the "Custody and Securities Lending Questionnaire – Attachment A". Each question must be addressed in the order in which they are asked and any supplemental information must be included in the section where it is requested.

Terms and prices included in the response must be guaranteed for 120 days from the date of receipt.

The proposal shall include the following sections, separated by tabs:

Custody or Custody & Securities Lending RFP  
RFP#: OSTCSL-11-001

**TAB 1: Summary Information and Proposal Return Cover Page**

**TAB 2: Attachment A – Organizational Background**

**TAB 3: Attachment A –Services**

**TAB 3: Attachment A –Securities Lending**

**TAB 3: Attachment A –Reporting and Data Requirements**

**TAB 4: Attachment A –Technology and Systems**

**TAB 5: Attachment A –Fee Schedule**

**TAB 6: Attachment B–Custody Agreement**

**TAB 7: Attachment C–Securities Lending Agreement**

## **SECTION VI STATEMENT OF WORK**

### **VI-1 SCOPE OF WORK**

The selected financial institution will provide full master custody and possibly securities lending services to OST.

OST custody needs are very basic: trade settlement, cash settlement, portfolio pricing, and basic reporting. OST *does not need* accounting, performance, or compliance monitoring services.

The vendor selected as the result of this RFP may provide custody or custody and securities lending services for OST. OST is reserving the right to make alternative arrangements for securities lending if the custody-only option is selected.

OST is committed to the utilization of the technological advancements that have been made in recent years to more efficiently and effectively manage our investment program. Accordingly, during the search process a great deal of emphasis will be placed on the mode of communication between the custody bank and OST. This will include all aspects of the custody bank's internal functions and its interfaces with OST, i.e., communication of trade information, trade processing and settlement, trade monitoring, the cash confirmation process, securities on loan, access to reports, and downloading of information.

On a daily basis OST generates a large volume of trades, with dollar amounts, typically \$400 million to \$1,200 million. Accordingly, OST places a great deal of value on the quality and experience of the day to day contact(s) for trade processing, monitoring and cash confirmations, and on the system(s) they utilize to do those tasks.

## **VI-2 SERVICES TO BE PROVIDED**

### **A. GENERAL**

1. Reporting must be available on a fiscal year basis of July 1 to June 30;
2. Technical expertise and assistance to OST personnel including but not limited to:
  - a) Assistance in identifying ways in which the custodian's resources, products, and information can be used to maximize efficiency; and,
  - b) Providing a "help desk" to assist investment staff;
  - c) Providing a "help desk" to assist technical staff;
3. Provide on-site training and support to OST staff during the initial conversion process and at any time when substantial changes have been made to any software the bank provides;
4. Vendor shall make appropriate personnel available to meet with OST staff annually, or more frequently if requested, to discuss services and overall administration of the custodial relationship; and,

### **B. TRADE SETTLEMENT AND CUSTODY**

1. On-line security clearing at the DTC, Federal Reserve and other security clearing operations;
2. Settlement of all trades on an actual settlement basis;
3. Electronic access to trade data and status;
4. Settlement on a delivery versus payment basis. Free delivery settlement must be approved by the OST prior to settlement and within established policies and procedures;
5. Provide a daily repo collateral pricing report for all **deliverable**<sup>1</sup> repos that will allow OST to monitor the collateralization levels of individual repo transactions;
6. Provide daily pricing of the Treasury/Trust and LGIP portfolios. Pricing information must be transmitted or available electronically to OST for upload to TMS. The existing process is that current day's pricing is transmitted to OST prior to 11:00 p.m. Pacific Time of that day; however, alternatives for more timely updates may be proposed. This would be needed if OST needed to set a share price for the close of that business day.
7. Trade date recording for all securities;
8. Provide a monthly detail list of assets in custody no later than three calendar days after month end.

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<sup>1</sup> OST currently utilized repo on a deliverable basis. We are in the process of researching a potential migration into tri-party repo.

- a) Online access preferred (for electronic reconciliation); and,
  - b) At a minimum, reported by portfolio, CUSIP, security description, maturity date, interest rate/discount rate, par, price, and market value.
9. Provide monthly pending trade reports

### **C. CASH MANAGEMENT**

1. Provide a daily sweep of excess net cash flows, by account, into a specified overnight investment vehicle, preferably a repo or demand deposit account. Generally, OST will maintain a zero end-of-day balance in the accounts. However, there will be occasions where a positive balance does exist, e.g., in the case of a purchase fail or unanticipated income payments. In those cases, the cash must be invested in a separate repo or deposit account for each account or returned to OST. Cash in the LGIP or Treasury/Trust accounts must be invested separately and may not be co-mingled with each other, or with accounts of other clients.
  - a) Provide a daily tracking report for any investments & earnings resulting from balances in OST accounts; and,
  - b) Provide monthly earnings activity reports.
2. Provide daily cash flow projection reports; (5-7 days) of cash transactions on a daily basis, to include:
  - a) All cash due to OST for interest, calls, maturities, and paydowns; and,
  - b) At a minimum, reported by pay date, portfolio, CUSIP, security description, maturity date, interest rate, and amount;
3. Payable date posting for interest and maturities;
4. Notification of calls and other non-scheduled redemptions, and income and expenses, e.g., custody billing, securities lending earnings and costs, sweep earnings, in a timely manner;
5. Daily cash confirmation for all investment activity prior to release of the wire for the net of the cash activity for the current business day. NOTE: OST investment accounting also performs a 'pre-confirmation' the afternoon of the previous business day for the next business day.
  - a) "OST In" amounts by portfolio (confirmation between custodian & OST investment accounting) including: interest, calls, maturities, paydowns, sales, miscellaneous income (sweep / securities lending); and,
  - b) "OST Out" amounts (netted with In amounts for confirmation between the custodian and the investment section) including purchases and custodial fee payments; and
6. Daily custodian cash statement of posted activity.
  - a) At a minimum, reported by settlement date, portfolio, CUSIP, security description, trade date, pay date, principal, interest, total received, total disbursed.

## D. SECURITIES LENDING PROGRAM

The outcome of this RFP process may be the selection of a firm to provide custody services only. OST is retaining the option to pursue alternatives to a custody lending program.

1. Provide securities lending for U.S. Treasury and Agency issues. The OST reserves the right to lend part or all of its eligible securities;
2. Maintain separate collateral accounts for each OST account:
  - a) Ensure that all loans of coupon-bearing securities are supported by collateral valued at not less than 102% of market value of the securities, including accrued interest;
  - b) Ensure that all loans of non coupon-bearing securities are supported by collateral valued at no less than 102% of market value, but not to exceed par; and,
  - c) Require that all loans of securities be collateralized by cash or authorized securities.
3. Collateralize and mark-to-market all loaned securities on a daily basis. Loans with insufficient collateral must be adjusted within 24 hours (see 2 above).
  - a) Provide a daily report showing collateralization levels by dealer;
4. Propose a list of eligible borrowers and maximum limits that may be borrowed by each, subject to approval by the OST. Conduct ongoing reviews of borrowers' qualifications and the balance on loan relative to borrowers' lending limits. Reevaluation of the "approved list" shall be conducted at least on a semi-annual basis.
5. Restrict reinvestment of cash collateral, and securities received as collateral, to only those securities authorized by OST investment policies. Vendors should carefully review the policies to identify those restrictions. Investment policies are available on the OST web-site at: <http://tre.wa.gov>.
6. Provide for next-day liquidity at the option of OST for any securities on loan;
7. Collect all interest or other distributions with respect to any loaned securities;
8. Credit all income to OST accounts as directed on the scheduled payable date;
9. Provide monthly lending income, by portfolio manager, for the Treasury/Trust portfolio;
10. Provide indemnification against borrower default;
11. Daily transmittal of a file identifying securities on-loan;
  - a) By current position date, portfolio, CUSIP, and par on-loan.
12. Daily transmittal of a file of securities purchased with cash collateral;
  - a) At a minimum, by date, portfolio, security description, issuer, issuer rating; book value, par value, settlement date, yield, and maturity date;

13. Daily transmittal of a file of securities accepted as collateral;
  - a) At a minimum, by date, portfolio, borrower, security description, CUSIP, maturity date, par value, book value, and market value;
14. Provide a monthly income statement, for securities lending, to include, by portfolio, gross income, gross expenses, and net income;
15. Monthly schedule of securities loaned, by portfolio; include agreement amount and type of collateral; and,
16. Annual GASB securities lending disclosure data.

### **VI-3 TECHNOLOGY AND SYSTEM REQUIREMENTS**

OST's Treasury Management System (TM\$) is a custom built application that integrates the following functional areas: cash and warrant management, debt management, investments, and all of the associated accounting and financial services. It utilizes a common technical architecture and database structure. TM\$ is the accounting system of record for the OST portfolios.

Each staff person in the OST investment and investment accounting divisions has a desktop system running Windows operating system (currently Vista) and Internet Explorer (currently IE 7.0). Investment staff also have similarly configured laptops for secure, remote access to OST's network. Any software proposed by the vendor must operate in the current desktop and laptop environment.

#### **A. COMMUNICATIONS INTERFACE**

1. The successful vendor must propose a method to securely exchange data between the vendor and OST. The current method uses a Secure File Transfer service offered by the state's Department of Information Services (DIS). This service allows files to be sent and retrieved via the Internet and provides multi-protocol support. Files may be transferred using FTP(s), HTTP(s), and SSH (SFTP and SCP). Additional information on this service can be provided on request. A direct FTP to an OST server via the Internet is not permitted per the state's security policy.
2. The proposed connection must be secure and allow for bi-directional transmission of data files, including, but not limited to, pricing information, trade data and instructions, holdings, securities lending data, etc.;
3. The successful vendor is strongly encouraged to propose a backup method to be used should the primary fail.

#### **B. TRADE ENTRY AND CAPTURE**

Currently, OST investment staff enters trade instructions and information directly into TM\$. This same data is used to create a flat CSV file that is sent through a file transfer process to the custodian. This single point of entry eliminates redundancy and reduces data entry and other processing errors.

1. The successful vendor must support the existing process or provide alternative capability so that trade data and instructions entered into TM\$ also interface with the custodial bank system(s); and,
2. Provide automated flow of trade instructions from point of entry to point of settlement with minimal enhancements or manual entry.

### **C. DATA**

1. Propose a process to perform an automated reconciliation of holdings between the bank system and TM\$ on a monthly basis. Information to be reconciled includes portfolio, CUSIP, security description, maturity date, interest rate, par value, and market value;
2. Maintain complete historical data for all investment activity in the OST portfolios. Data for OST holdings should be maintained six months beyond the end of the fiscal year within which they were either sold or matured.
3. Provide PC-based system or workstation system or Internet access to portfolio data and management information with the capability of providing the following on a daily basis:
  - a) Current and historical transactions;
  - b) Current and historical holdings;
  - c) Ad hoc query and reporting of holdings and transactions data; and,
  - d) Ideally, online, real-time access to trade information, trade status, and securities lending activity;
4. Provide adequate protection against unauthorized access to OST records;
5. Safeguard records against potential loss or destruction by fire, theft, vandalism, storm, earthquake, or any other hazard, by retaining backup data in a secure location so that records can be recreated at least to the end of the day preceding the occurrence of such event; and,
6. Have an established and proven plan for recreating records and resuming operations within twenty-four hours of any occurrence of any disaster or other cause which destroys records and/or interrupts normal operation of the vendor's systems. Included in these business continuity plans must be communication mechanisms with customers and alternative processing plans until such time as normal operations are restored.

### **VI-4 TRANSITION**

The scope of services set forth in the RFP defines the conditions, provisions, qualifying factors, and prerequisites that are necessary to compete successfully in this process. All respondents to the RFP should develop and discuss their transition strategy, organizational changes, and system enhancements or changes that are necessary to provide the level of service required.

1. If applicable, perform all procedures necessary to convert from the current custodian's system to the new system.
  - a) The vendor shall present a detailed schedule for the transition from the current custodian, Union Bank, to the vendor's organization. This schedule must include the timing of each phase of the transition, the custodian's employees involved in the process, and the level of involvement anticipated by the OST's employees and its current custodian;
  - b) The vendor shall be responsible for ensuring that the data held in the current custodian's system, and which will be provided by electronic transmission from the current custodian to the vendor, is accurately converted to the vendor's system;
  - c) All interfaces must be ready and adequately tested and approved by OST prior to conversion; and
  - d) The vendor must guarantee that the necessary resources will be committed to the conversion process to ensure that the conversion is performed in a timely manner and reconciling items are handled appropriately. The conversion process, including the proper disposition of reconciling items must be completed by September 30, 2011.
  
2. Upon termination of this agreement, the custodian shall cooperate fully with the successor custodian to facilitate the transition from the custodian's system to the successor's system.
  - a) During transition, the custodian shall provide to the OST and the successor any information about the custodian's system as may reasonably be needed by the successor to prepare for and effect the transition. Such information might include data formats, data element definition, update frequencies, etc., but the custodian would not be expected to provide proprietary information about internal systems;
  - b) The custodian shall provide to the successor a copy of all OST data in a mutually agreed form and format for test purposes. The OST agrees to provide at least thirty (30) calendar days notice of the need for such data; and,
  - c) On the effective date of the conversion from the prior custodian to the successor custodian, the prior custodian shall provide a complete final copy of all current OST files to the successor. Suitable and mutually agreed arrangements shall be made between the prior custodian, the OST, and the successor for processing of transactions received subsequent to the effective date of conversion.

## **VII. OPTIONAL SERVICES (NON-CUSTODIAL)**

The Public Deposit Protection Commission (PDPC) is comprised of the State Treasurer, Governor, and Lieutenant Governor. The PDPC makes and enforces regulations and administers a program to ensure public funds deposited in banks and thrifts are protected if a financial institution becomes insolvent.

The PDPC approves which banks and thrifts can hold state and local government deposits and monitors collateral pledged to secure uninsured public deposits. This secures public treasurers'

deposits when they exceed the amount insured by the [FDIC](#) by requiring banks and thrifts to pledge securities as collateral. It also minimizes participating depositories' liability for defaulting institutions. No public funds on deposit in public depositories have been lost since the Public Deposit Protection Act was created in 1969.

1. OST currently monitors the collateral holdings submitted by local banks as part of the PDPC. While OST does not hold the submitted collateral, it takes an active part in monitoring the margin levels to verify that they comply with PDPC regulations. OST is looking for a possible source of pricing and reference data for a list of no more than 2500 cusips of varying liquidity levels. Security types within the collateral include Municipal bonds, mortgage-backed securities, agency bullets, agency callables, and treasuries.
  - a) Pricing for as many securities as possible would be a necessity
  - b) Reference data would include:
    - i. Mortgage factors, callable dates, next payment date, issuer, issue date, maturity date, coupon or discount rate, and FFIEC test eligibility.
2. OST would submit a file of cusips twice a month, (on the 10<sup>th</sup> of each month, and one day prior to month end).
3. As this is an optional service, please separate it from the custodial services when introducing a fee schedule. This is a service we may or may not decide to exercise.