

**STATE OF WASHINGTON  
OFFICE OF STATE TREASURER  
CUSTODY AND SECURITIES LENDING  
QUESTIONNAIRE**

The following questionnaire must be completed and included with your response to this offering document. This questionnaire has been prepared to obtain responses to questions concerning the offeror's capability to provide the services identified in Section VI of the offering document.

Limit your response to each question to one or two pages. Some questions can be answered with a brief response. Type your responses in the same order as the questionnaire, listing the question first followed by your answer.

FIRM NAME: \_\_\_\_\_

ADDRESS: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

TELEPHONE NUMBER: \_\_\_\_\_

FAX NUMBER: \_\_\_\_\_

E-MAIL: \_\_\_\_\_

CLIENT CONTACT: \_\_\_\_\_

SIGNED: \_\_\_\_\_

Name (print): \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_

## SECTION I - ORGANIZATIONAL BACKGROUND

### A. Organization

1. Provide a brief history of the firm including the following:
  - Year of organization
  - Year of initiation of custody business
  - Year of initiation of securities lending business
  - Development of major business lines
  - Nature of firm's ownership
  - Nature of relationships with affiliated companies or joint ventures
2. Provide details of the financial condition of your organization including the firm's short- and long-term credit ratings over the past five years. Provide copies of the three most recent audited annual reports, through either hard copy, CD, or web access. Describe any material changes to your organization in the last five years, including acquisitions and mergers.
3. Describe the custody service capabilities that distinguish your firm from your competitors.
4. How many public fund clients participate in your securities lending program? Please provide information on the growth of public fund clients in the program over the past three years.
5. Given the nature of the OST portfolios and reinvestment guidelines, describe your securities lending capabilities that distinguish your firm from your competitors.
6. How many public operating funds clients do you currently have and what is the total market value of those accounts? Of those clients, provide a list of the largest five, including the market value of those accounts, and provide names and contact numbers.
7. Provide information regarding public funds clients that have ended their relationship with your firm over the past three years.
8. Provide a brief explanation and indicate the current status of any litigation, investigation by a regulatory authority, contingent liabilities, or other legal proceedings involving your company or any officer or principal over the past five years. Please include a description of all pending legal and regulatory activity.
9. Describe your organization's historical and current commitment to the custody business. List approximate dollar contributions of custody services and securities lending to your firm's overall business. Summarize the business plan for the next five years.
10. Should OST select an option other than a custody lending program, what are your experiences and strengths in working with those third parties.

### B. Internal Controls and Risk Management

1. Have there been any negative audit findings, NASD or SEC involvement, or any other sanctions against your firm in the last five years?

\_\_\_\_\_ Yes \_\_\_\_\_ No

If you answered yes to the above question, what was the resolution?

2. Do you provide assurances through a third party letter that internal control reviews are being conducted in compliance with the Statements on Auditing Standards?

\_\_\_\_\_ Yes \_\_\_\_\_ No

If you answered yes to the above question, please provide a copy of the most recent report, through hard copy, CD, or web access.

3. Do you have an internal audit staff that consistently evaluates all controls, systems, and risks associated with master trust / master custody services?

\_\_\_\_\_ Yes \_\_\_\_\_ No

If you answered yes to the above question, please describe the frequency and scope of these audits as they relate to custody and securities lending.

4. What would you provide OST or their auditors in regards to the working papers and reports of the external reviews/audits?
5. Describe the various types of insurance coverage and indemnification provided to protect clients of service(s) proposed, including risk coverage, carriers, insurance levels, limitations, and deductibles.
6. Are investment securities held by your organization so they are not subject to the claims of creditors against your organization?  
\_\_\_\_\_ Yes \_\_\_\_\_ No
7. Briefly describe your practice of reviewing and updating documented policies and procedures.

## **SECTION II - SERVICES**

### **A. Administration and Client Relations**

1. A) For custody, describe in detail your proposed team and approach to servicing the OST account.  
B) Provide a brief resume and primary service location for each individual of the day to day contacts, relationship management, and technology staff.  
C) Construct an organizational chart clearly showing how the proposed team is connected within the vendor, as well as their relationship to the overall organization.
2. Provide the same information as in Question 1 above for your proposed securities lending team.

3. Provide three account references who are being serviced by the day-to-day account administrator you are proposing for OST. Provide this for custody and securities lending.
4. How do you monitor client satisfaction?
5. Describe the procedures that you use to assure continuity of services during vacations or other absences within your account administration area.
6. What level of turnover have you experienced in the account administration area in the past three years?
7. Describe the coordination that occurs between the custody and securities lending areas. How does the lending area receive information on securities available and on pending trades?
8. Should OST select an option other than a custody lending program, describe the coordination that would occur between your institution and third-party lenders.

## B. Trade Settlement and Custody

1. **THIS QUESTION IS VERY IMPORTANT! PLEASE GIVE A COMPLETE, DETAILED RESPONSE!**
  - A) Describe your procedures for processing trade instructions for both a Fed Book-Entry purchase and sale for a client utilizing actual settlement. Provide a detailed flow-chart which begins with receiving trade instructions from a client and follows the flow of information, securities, cash, and the posting of that trade into the accounting system. Be sure to include information as to when the account would be debited or credited for the cash. Demonstrate the extent of your straight-through processing by distinguishing which steps in the process require manual input and which are automated.
  - B) Describe your procedures for processing trade instructions for both a DTC purchase and sale for a client utilizing actual settlement.
2. Does your online system allow the user to import/export portfolio data? If so, in what file format is this information transferred? (*Text file, comma-separated batch, etc.*)
3. Describe how you receive trade instructions for, and then process, settle, and monitor deliverable<sup>1</sup> multi-collateral repos. Please describe in detail how OST would relay trade instructions for the individual pieces of a multi-collateral repo.
4. Will you provide settlement of trades on an actual settlement basis?

---

<sup>1</sup> OST currently utilizes repurchase agreements on a deliverable basis, but is seriously considering a migration to tri-party repo standards.

\_\_\_\_\_ Yes \_\_\_\_\_ No

5. For the settlement of same-day trades, which are primarily deliverable multi-collateral repos, OST will provide trade instructions by 11:00 a.m. Pacific Time. Do you have procedures and capabilities for settling and accounting for these same-day cash trades?

\_\_\_\_\_ Yes \_\_\_\_\_ No

6. Describe your procedures, including timing, for notification, tracking and resolving failed trades, and for reporting failed trades to clients.

### C. Cash Management

1. Generally, OST will maintain a zero end-of-day balance in its custody 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 overnight repo, demand deposit 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.

Will you comply with these requirements? If so, how do you propose to do so?

\_\_\_\_\_ Yes \_\_\_\_\_ No

2. Each day, either the custody provider or OST will send wires reflecting the net cash activity in each account. OST will confirm the net amounts with the custody provider, prior to release of the wire for the net of the cash activity. In the afternoon, at approximately 1:00 p.m. Pacific Time, a pre-confirmation, will be conducted for all known investment activity for the next business day. Can you accommodate these activities? If not, please explain what you will provide.

\_\_\_\_\_ Yes \_\_\_\_\_ No

3. Describe the process for determining the net cash activity. To what extent is the process automated?
4. Will you provide OST advance notification of calls and other non-scheduled securities-related payments?

\_\_\_\_\_ Yes \_\_\_\_\_ No

If yes, describe the procedure for providing notification to OST, including timelines.

5. Provide a diagram showing the relationships and interfaces of the accounting systems and personnel that support master custody. Include a written description of the diagram.

**D. Other Services**

1. List any other services you could provide which have not been listed as service requirements that you believe, based on this RFP, would add value to the OST investment program.
2. Describe the services provided in assisting clients with the setup of additional funds. Provide the technical and support services offered, as well as the experience your firm has in assisting with the setup and implementation of a bond fund that uses a variable net asset value.

**SECTION III – SECURITIES LENDING**

1. How does your organization monitor the risk of the securities lending program both qualitatively and quantitatively?
2. Have you experienced any losses due to operational negligence, collateral reinvestment and/or security specific reinvestments, and/or broker default since the inception of your securities lending program? Describe. What was the recourse provided to clients and the level of communication with them?
3. Does a specific person or group perform both lending and cash reinvesting functions?
4. How do you ensure that the client guidelines for the reinvestment of cash collateral are strictly adhered to?
5. Do you have a risk manager monitoring the securities lending program? How does the manager accomplish their mandate objectively?
6. Describe the safeguards in place to protect the client while terminating a loan in the event of a broker default?
7. a) List your firm's average total lendable asset base for the following periods:

	2008	2009	2010	Current
--	------	------	------	---------

U.S. Treasuries				
-----------------	--	--	--	--

U.S. Agencies				
---------------	--	--	--	--

- b) What was the average percentage of lendable assets on loan for the following periods:

	2008	2009	2010	Current
--	------	------	------	---------

U.S. Treasuries				
-----------------	--	--	--	--

U.S. Agencies				
---------------	--	--	--	--

**NOTE: Answers to this question that do not differentiate between U.S. Treasury and Agency securities will be deemed non-responsive.**

8. Describe the allocation/queuing system used in determining which clients' securities to lend.
  - a) Include a list of the factors used in this determination.

- b) To what extent does profitability play a factor?
- c) To what extent will your queuing system penalize OST because of the restrictive guidelines on the reinvestment of cash collateral?
9. Please describe your process for determining which borrowers you will lend securities to, and the total loan limitations for those borrowers. Identify the 10 largest in terms of loans outstanding.
10. Describe your mark-to-market procedures, including times and the levels that trigger requests for additional collateral.

**For questions 11 – 15 use the following assumptions:**

Next-day liquidity at the option of OST must be available for any securities on loan.

	Treasury/Trust	LGIP
Total Portfolio Size (in Millions):	3,000	8,500
Lendable Assets (in Millions):		
US Treasuries:		
Coupons	200	25
Bills	25	1,000
US Agencies:		
Bullets	500	150
Callables	1,000	50
Discount Notes	400	1,500

The maximum percentage of the total LGIP portfolio that may be on loan is 30%. For the Treasury/Trust portfolio there is also a 30% limitation, but that is only in effect at fiscal year end, i.e., on June 30 of each year.

Options for loan collateral – Cash or bonds borrowed

Reinvestment of cash collateral will be in US Agency mortgage-backed repo:

**NOTE: Tri-party repo is not allowable<sup>2</sup>**

CMO collateral must pass the FFIEC test

CMO Repos longer than 7 days collateralized at 105%

All other repos collateralized at 102%

Maximum term: 30 days

Bonds borrowed collateral will utilize the above guidelines for US Agency mortgage-backed repo.

<sup>2</sup> OST currently utilizes repurchase agreements on a deliverable basis, but is seriously considering a migration to tri-party repo standards. This migration would also apply to securities lending.

The cash and collateral accounts for the LGIP and the Treasury/Trust portfolios must be managed separately and may not be commingled with each other or with those of other clients.

11. Given the above restrictions what spread, if any, could you generate by lending general collateral:
  - a) US Treasury securities?
  - b) US Agency securities?
12. Specify your proposed income split for securities lending. OST will not pay any fees so the proposed split must be a net percentage of total income generated.
13. **NOTE: Please consider question 15 when answering this question.** Given the assumptions listed above, what is the annual income that OST could reasonably expect to receive from your lending program, **per portfolio**? Please specify all assumptions (spreads, volume, etc.) used in calculating estimated income.
14. What would be the impact of utilizing tri-party repo as a reinvestment option on the estimates in question 13?
15. Is your firm prepared to accept a 90/10 split until 75 percent of your estimate is achieved? After 75 percent is achieved the split would be adjusted so that the annual split would match your proposal. If 75 percent is not achieved the 90/10 split would be remain in effect, and, effectively would be the final income split. If your answer to this question is no, what alternative type of performance guarantee arrangement would you propose?
16. Can your firm provide net monthly securities lending income, by portfolio manager, for the Treasury/Trust portfolio? Securities are tracked at the portfolio manager level in TM\$, so the portfolio manager code would be entered by OST as part of the trade instructions, or conversely a nightly file of individual manager holdings could be sent to the Bank.

#### SECTION IV – REPORTING AND DATA REQUIREMENTS

Section VI Statement of Work of the RFP contains a complete listing of the OST reporting and data file requirements. This section of the Questionnaire deals with some of those requirements. For questions 1-11 you must check either **Yes**, **No**, or **Will Provide**. Check **Yes** only if you currently have a report or data interface that meets our requirements, **No** if you will not be able to meet the requirement, or **Will Provide** if you currently cannot meet the requirement but will develop a report or data interface that will do so. If you check **Will Provide**, you **must** indicate the date that the report or data interface will be available. You must provide examples of all of the reporting requirements for which you check **Yes**. When providing examples of reports, put them in the same order that they are listed below and clearly number each report with the same

number as the reporting requirement that they meet. When answering **Yes** or **Will Provide** to data requirements describe the data elements and formats.<sup>3</sup>

**Reports:**

1. A daily repo collateral pricing report, by portfolio, that will allow OST to monitor the collateralization levels of individual deliverable<sup>4</sup> repo transactions.  
Yes \_\_\_ No \_\_\_ Will Provide \_\_\_
2. Daily cash flow projection reports (5-7 days) of cash transactions. Reports must include all cash due to OST for interest, calls, maturities, and paydowns and, at a minimum, reported by pay date, portfolio, CUSIP, security description, maturity date, interest rate, and amount.  
Yes \_\_\_ No \_\_\_ Will Provide \_\_\_
3. Daily custodian cash statement of posted activity. At a minimum, reported by settlement date, portfolio, CUSIP, security description, trade date, pay date, principal, interest, total received, and total disbursed.  
Yes \_\_\_ No \_\_\_ Will Provide \_\_\_
4. For securities on loan, a daily report showing collateralization levels by dealer.  
Yes \_\_\_ No \_\_\_ Will Provide \_\_\_
5. For securities on loan, a daily report showing securities purchased with cash collateral. At a minimum, reported by date, portfolio, security description, issuer, book value, par value, settlement date, yield, and maturity date.  
Yes \_\_\_ No \_\_\_ Will Provide \_\_\_
6. For securities on loan, a daily report showing securities accepted as collateral. At a minimum, reported by date, portfolio, borrower, security description, CUSIP, maturity date, par value, book value, and market value.  
Yes \_\_\_ No \_\_\_ Will Provide \_\_\_

**Data:**

7. Accept daily trade information from OST.  
Yes \_\_\_ No \_\_\_ Will Provide \_\_\_
8. Daily pricing of the Treasury/Trust and LGIP portfolios where pricing information is transmitted to OST for upload to TM\$. The current day's pricing must be transmitted prior to 2:00 p.m. Pacific Time of that day.  
Yes \_\_\_ No \_\_\_ Will Provide \_\_\_
9. Does your firm provide clients with a primary and secondary pricing vendor?  
Yes \_\_\_ No \_\_\_

---

<sup>3</sup> OST currently exchanges files with the Custodian. Current file formats are available on request.

<sup>4</sup> OST currently utilizes repurchase agreements on a deliverable basis, but is seriously considering a migration to tri-party repo standards.

Please list current pricing vendors, as well as options given to clients seeking alternative pricing sources for the purpose of striking an accurate share price for portfolios.

10. Daily transmittal of a file identifying the securities purchased with cash collateral.

Yes \_\_\_ No \_\_\_ Will Provide \_\_\_

11. Daily transmittal of a file identifying securities on-loan. At a minimum, reported by current position date, portfolio, CUSIP, and par on-loan.

Yes \_\_\_ No \_\_\_ Will Provide \_\_\_

12. Describe your online system for accessing portfolio data and management information.

## **SECTION V – TECHNOLOGY AND SYSTEMS**

### **A. Hardware and Software**

1. Provide a brief list of major systems supporting the custody and securities lending services and how these systems are integrated. For each, identify the development date and any scheduled plans for major updates.
2. Describe the hardware/software platform(s) on which the custody and securities lending systems operate. What effect on your system's capacity would the addition of OST as a client have on your systems and capacity during the first 12 months?
3. How many times in the last two years has an outage occurred in either computer systems or communications facilities that caused an interruption or delay of service to one or more of your clients? What was the longest and approximate average duration of such outages? What were the causes, and how were the problems corrected? Describe redundancy, if any, built into your computer systems and telecommunications facilities for the purpose of minimizing system outages.

### **B. Client Application, Interfaces, and Support**

1. Describe your on-line system that is provided to clients. Include the length of time it has been offered to clients, and the percentage of your custody clients that utilize the on-line service.
2. What are the requirements to access your on-line system, and what provisions are made for training client personnel?
3. Describe your on-line systems and workstation capabilities for clients with regard to the data available on-line, and the timing of data available by electronic delivery, for view, manipulation, download of standard or customized reports, download of data files, and report writer and ad-hoc query access. More specifically, if your system provides on-line information in a customized

- reporting format, discuss the custom reporting flexibility and limitations and the compatibility with Microsoft Excel, Microsoft Access, and other PC based software.
4. What is the purge cycle for data to which clients have access? Will investment history information related to current holdings be maintained on-line indefinitely? If not, how much account history is available via the on-line system?
  5. Describe the method to securely exchange data with OST. List any terminals, equipment, or software you would provide to OST for transmitting instructions, receiving data, reports, etc.
  6. Describe the customer service processes by which you accommodate client requests for customization.

### **C. Security**

1. What are your security procedures to protect customer information, especially with respect to unauthorized access to data?
2. Describe your process for file back-up and off-site storage, including the frequency and location of the data and software. If the location is confidential, describe the physical conditions of the storage location and approximate distance from your primary computing facility.
3. Describe your disaster recovery plan and results of tests performed in the last year.
4. Describe any client instruction manuals, training and test involvement in business continuity plans for various business disruptions.

### **D. Transition and Conversion**

1. Describe the transition and conversion process you would employ. What would you estimate to be a reasonable transition period for OST? Please provide a detailed conversion and transition plan identifying all tasks to be completed with specific target dates and OST employee involvement in each task.
2. Describe the personnel you intend to have on your transition team. Provide the name of the transition team leader and discuss his/her experience.
3. What would be the relationship between the transition team leader and the ongoing relationship manager after the transition is complete?
4. What is the disposition of transactions, claims, and accruals pending during the transition / conversion period?
5. What responsibility does OST have in identifying and resolving reconciling items between the prior custodian's system and the new system? What resources will your organization provide in this effort?

## **SECTION VI – CUSTODY FEE SCHEDULE**

As described in the RFP, OST may select the custody-only option as the outcome of this search. Accordingly, please provide:

1. a schedule of all fees associated with the custody services you will be providing for OST should OST select the custody-only option. **Please ensure that all costs associated with services to be provided are included.** Any fee not fully documented in your proposal will not be allowed. Also include timing and method of billing; and
2. a schedule of all fees associated with the custody services you will be providing for OST should OST select the custody and securities lending option. **Please ensure that all costs associated with services to be provided are included.** Any fee not fully documented in your proposal will not be allowed. Also include timing and method of billing

## SECTION VII – AGREEMENTS

1. Attachments B and C contain the custody and securities lending agreements, respectively. The negotiated agreements are expected to contain substantially the same general terms and conditions. To be responsive to this RFP, financial institutions must indicate, in writing, their acceptance of all provisions of each agreement, or indicate those provisions they do not accept and include the substitute language they are proposing. 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.

The response to this section of the RFP Questionnaire will include your acceptance of all provisions of the agreements, or an indication of those provisions that you do not accept. In the latter case, you are to provide substitute language you are proposing, or indicate "none" if the intent is to eliminate the provision entirely.

2. Provide a copy of your standard Borrowers Agreement
3. Provide a copy of your standard Funds Transfer Authorization Agreement

## SECTION VIII – OPTIONAL SERVICES (NON-CUSTODIAL)

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 (10%), mortgage-backed securities (80%), agency bullets (3%), agency callables (3%), and treasuries (4%).
  - a) Pricing for as many securities as possible would be a necessity
  - b) Reference data would include:

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).

Would your firm have the capability and be willing to provide the pricing and reference data twice monthly given the parameters provided above?

Yes \_\_\_ No \_\_\_

If you answered yes, please estimate what percentage of the 2500 cusips could be priced given the illiquidity of many of the securities.

**\*\*As this is an optional service, please separate it from the custodial services when introducing a fee schedule. As this is a service we may or may not decide to exercise, it will not be scored and will have no bearing on which vendor we choose for custody.**