WEDNESDAY'S
News You Can Use

Collateralization of Public Funds & Bitcoin

Presented by **Martha Suggs & Michael J. Skordeles**

Carl Vinson Institute of Government
UNIVERSITY OF GEORGIA

Today’s Presenters

Martha Suggs, a financial professional with 30 years of experience, serves as a Senior Vice President managing Risk Administration and Collateral management for Corporate Treasury at SunTrust Banks, Inc. Martha is based in Atlanta.

As SunTrust Advisory Services, Inc.’s Director, US Macro Strategist and Senior Vice President, **Michael Skordeles** is responsible for analyzing the US and global economies and financial markets as well as helping formulate and communicate investment strategy, publishing commentaries for our clients. As part of the Portfolio & Market Strategy group, he helps manage over $11 billion in client assets. Mike is based in Atlanta.

Learning Objectives

At the end of this session, you should be able to:

- Recall Georgia laws that govern the collateralization of public funds
- Recall collateralization options available to governments
- Define Bitcoin
- Recount the nuances of the new cryptocurrency

Collateralization: Bank Liquidity Management

Martha Suggs

Senior Vice President, Corporate Treasury
SunTrust Banks, Inc.

Georgia Legislative Changes & Impacts to Collateral Pool

In 2016, Senate Bill 283 was passed in order to develop the Secure Deposit Program, a Multi-Bank Pledging Pool. This pool is mandatory for Banks with at least $50B in assets. Banks with less than $50B in assets can "volunteer" to participate in the program if the State approves.

- **In 1997, the State of Georgia offered a Single Bank Pool for Qualified Public Depositors, requiring 110% collateralization for public fund balances held above the FDIC limit. Each Bank provided collateral for its own clients**
  - Prior collateralization arrangements were handled via dedicated pledges. This continues to be an alternative for clients

- **Over time, increased demands on liquidity due to new regulatory requirements such as increased capital requirements, the Liquidity Coverage Ratio (LCR), and Reg YY impacted Banks over $50B in assets causing competing uses of securities:**
  - Pledged securities could not be used as High Quality Liquid Assets (HQLA) which are required for LCR
    - Therefore, Banks had to increase the amount of collateral held to cover liquidity requirements for both Federal Reserve and State regulations
  - Public deposits, unless collateralized with US Treasuries or cash, have increased collateral requirements due to run-off assumptions for LCR

- **This placed a burden on some larger public fund entities as larger banks were starting to evaluate the cost of maintaining the additional collateral. Larger banks were needed to provide:**
  - Large enough balance sheets to maintain adequate collateral
  - Robust treasury management services

Key Features of the Secure Deposit Program

The Secure Deposit Program is a multibank pledging pool with a loss sharing arrangement between the participants in the pool. The Multi-Bank Pledging Pool works to provide a reduced collateral requirement to participating banks; however, it also seeks to protect both public entities and qualified public depositories.

- **Offers protection for public entities in the event of default of a participating bank as other participating banks would cover losses based on pro rata share of each bank**
- **The Board of Directors of participating banks are required to adopt a resolution recognizing the Security Agreement which outlines the details of the program, including the risks of the pool**
- **For "Voluntary Banks" under $50B in assets, the Bank has to submit an Application and Agreement to the Georgia Office of the State Treasurer. In addition, the State Depository Board has to approve the Bank's participation**
- **For public funds pursuant to federal guidelines (i.e. HUD, Indian Housing, etc.), Banks are required to submit an Account Exemption Certification Form to the Office of State Treasurer, who will approve and acknowledge these deposits as exempt from the Secure Deposit Program. These are typically handled via dedicated pledges**
- **Collateralization tiers range from 25% - 110%. Collateral requirements can increase to 125% if warranted by financial or economic reasons**
- **Higher rated banks hold less collateral whereas weaker banks hold more collateral. As a bank deteriorates, the collateral requirements increase, lowering the amount of exposure to other pool participants**
- **Concentration thresholds are set to limit the amount of exposure from one bank to other pool participants**
  - If a bank has more than a 20% pro rata share, collateral requirements increase to 100% on the incremental amount above the threshold

Single Bank vs. Multi-Bank Pledging Pools

Georgia offers three methods of collateralizing public deposits. Single Bank Pools typically require higher collateralization requirements; however, Banks do not have to participate in loss sharing arrangements. Dedicated Pledges are a tri-party arrangement between the Bank, client, and custodian. Georgia's Secure Deposit Program, a Multi-Bank Pledging Pool, requires a lower collateralization rate using a rating and tier structure; however, Banks have added risk to the pool.

Features	Single Bank Pool	Dedicated Pledge	Secure Deposit Program A Multi-Bank Pledging Pool
Participation	Banks < $50B in assets	• Banks < $50B in assets • Banks > $50B in assets only for public funds collateralized pursuant to other guidelines such as Federal ex. HUD & Indian Housing	• Mandatory for Banks > $50B in assets • Voluntary for Banks < $50B in assets with GDB&F approval
Collateralization Requirements	110%	110%	Tiered approach from 25% to 110%
Loss Sharing Arrangement	No	N/A	Yes
Ratings & Tiers (Based on a 100 point scale)	N/A	N/A	Tier I: 25% Score 65+ Tier II: 50% Score 50-64 Tier III: 75% Score 35-49 Tier IV: 110% Score < 35
Concentration Limits	No	N/A	Balances over 20% of pool are collateralized at 100%

Knowledge Check

Collateralization options in Georgia include (Select all that apply):

A. Dedicated Method

B. Single Bank Pool

C. Multibank Pledging Pool

D. Temporary Liquidity Guarantee Program

Knowledge Check

Under the dedicated method public funds, net of the FDIC insured amount, should be collateralized at:

A. 100%

B. 110%

C. 75%

D. 25% - 110%

Investing: Bitcoin & Cryptocurrencies

Michael J. Skordeles, AIF®

Director, US Macro Strategist
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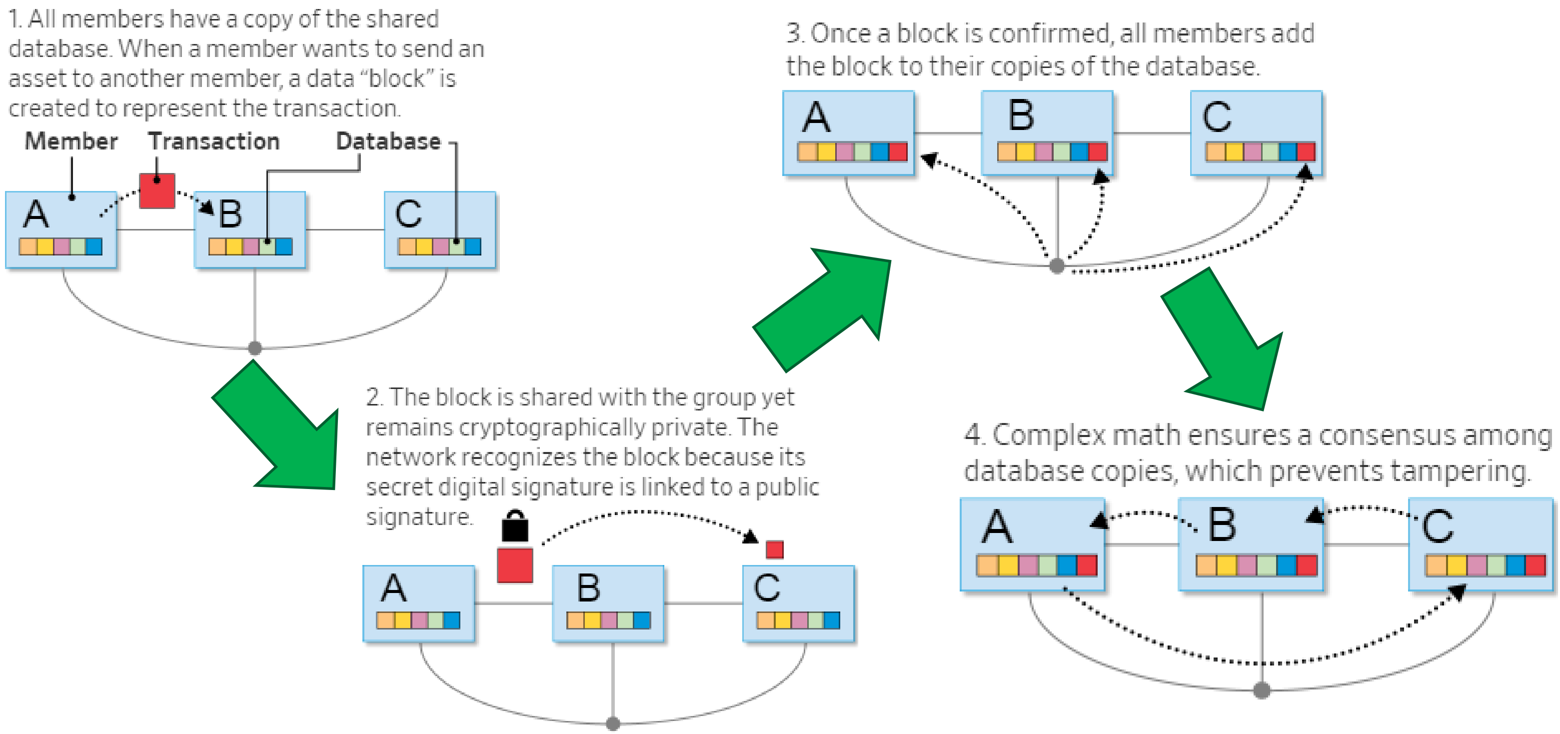
What is Blockchain?

- Blockchain vs. Bitcoin/Cryptocurrencies



- What is Bitcoin?

Bitcoin/Cryptocurrencies

- Is it really a currency?
  - Universal Acceptance
  - Protection
- Government Regulation (and Taxation)
- Fraud and Theft

Takeaways: Bitcoin/Cryptocurrencies

- Blockchain is an evolving technology, which will likely endure and flourish
- Bitcoin/Cryptocurrencies is just one of many applications of blockchain technology
- However, there are many issues with Bitcoin/Cryptocurrencies, primarily surrounding government regulation and taxation, as well as extreme volatility

Knowledge Check

Which of the following is (are) true? Select all that apply.

A. Bitcoin is a form of digital currency.

B. Bitcoin is a decentralized form of currency.

C. Bitcoin is a centralized form of currency.

D. Blockchain is a digitized, decentralized, public ledger of all cryptocurrency transactions.

QUESTIONS?

Martha Suggs

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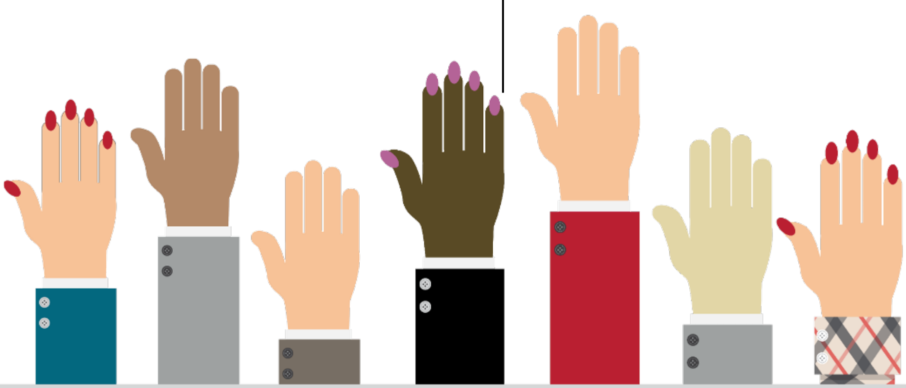

Thank You!

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