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TO: All Public Fund Treasurers
FROM: Robert S. O'Brien, State Treasurer
SUBJECT: Third Party Safekeeping Agreements

RSO/B

Attached are five important elements that should be considered when establishing custodial third party safekeeping agreements. The elements are intended to be only guidelines related to agreements used by the State Treasurer's Office which, we believe, provide maximum protection of public funds. Compliance with the attached guidelines will help ensure a high degree of protection, but various individual circumstances may dictate the establishment of more or less stringent requirements.

It should be noted that in order to provide the maximum protection for public funds, the principal element in any such agreement should be the absolute control, by the municipal treasurer, of the securities that will be held in the custodial account. The custodian should not respond to direction from anyone except the municipal treasurer or his/her designee. This protection is diminished if an outside party has access to the account.

The individual treasurer will have to assess the adequacy of any agreement. However, I hope that this will provide some guidance when assessing your own safekeeping arrangements.

Attachment.

WASHINGTON STATE TREASURER

IMPORTANT ELEMENTS OF CUSTODIAL AGREEMENTS

- 1) Agreement should be between the municipal treasurer and custodial third party.
- 2) Agreement specifies that custodial third party will act as trustee solely on behalf, and at the direction of the municipal treasurer for the safekeeping of securities purchased by the municipal treasurer and carry out other duties as specified and agreed to between the parties in the agreement (disposition of money coming to custodian for the benefit of municipal treasurer, money entrusted to custodian by municipal treasurer for the payment of securities, audit requests, account statements, etc.).
- 3) The responsibilities of the custodial third party and the municipal treasurer in the event of default by seller.
- 4) Means of compensation to custodial third party.
- 5) Terms by which the agreement may be altered or terminated.