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To Whom It May Concern,

This letter seeks to address the questions and concerns that occasionally arise regarding the prudence or legality of the use, by public treasurers in Utah, of offshore time deposit sweep accounts ("offshore sweep accounts").

What is an offshore sweep account?

An offshore sweep account is an automated overnight sweep account that places some portion of a depositor's domestic U.S. bank operating account balances into a deposit account at an offshore branch of that bank. These *overnight* sweep transactions are made each day - full daily liquidity of the deposits is maintained through the sweep mechanism.

Offshore sweep accounts are offered by many banks to their commercial and government clientele, and have been in use now for decades. Banks in Utah offer offshore sweeps to the Cayman Islands, the Bahamas and England.

Why would a public treasurer use an offshore sweep account?

Historically, commercial banks in the U.S. have passed certain costs related to their regulatory burden to large commercial and government depositors. Two typical sources of such pass-through costs are *deposit insurance coverage premiums* and *reserve requirements*. Use of an offshore sweep can enable a depositor to shelter a portion of deposits from these costs, marginally enhancing interest earnings on those deposits.

Public treasurers have an obligation, subject to safety and liquidity constraints, to earn competitive returns on the public funds for which they are responsible, and therefore may legitimately choose this option (as opposed to other automated investment sweep alternatives that are more costly and yield less), especially in this depressed interest rate environment. The most common alternatives to offshore sweeps are repurchase agreement sweeps and money market mutual fund sweeps.

The rates on repurchase agreement and money market mutual fund sweeps are generally not competitive with offshore sweep rates, and under current market conditions the differences are substantial.

What special risks are associated with use of an offshore sweep account?

The Cayman Islands are *British Overseas Territories* and the Bahamas are part of the *British Commonwealth*. Cross-border funds repatriation and geopolitical risks in the use of offshore sweeps to such domiciles is nominal.

Are there tax reasons for using an offshore sweep account?

No. Utah municipalities are tax-exempt. No special tax advantages are derived from the use of an offshore sweep account, either by the public entity or the bank.

How are offshore sweep accounts legal for Utah public funds?

The Money Management Council, which oversees the safe deposit and investment of public funds in Utah, has determined the use by public treasurers of offshore sweeps *at a qualified depository institution* ("qualified depository") to be legal, subject to limitations on each qualified depository's uninsured public funds allotment ("allotment") as defined within the Money Management Act.

Offshore sweep accounts held by a Utah qualified depository are subject to allotment limits provided for under Administrative Rule R628-11 of the Council. The allotment is determined by formula and based on each bank's tier one capital amount and ratio. Offshore deposits of public depositors are uninsured, and therefore count against a qualified depository's allotment. Qualified depositories' uninsured public funds deposits are included in reports made monthly to the Utah Department of Financial Institutions and the Council.

The use of offshore investment sweeps is common, prudent and legal under the Money Management Act - such accounts have been in use by corporate and public treasurers in the state for many, many years.

Sincerely,



Richard K. Ellis
Utah State Treasurer