

200 KAR 23:010. Guidelines for use of financial agreements.

RELATES TO: KRS 56.863(9)

STATUTORY AUTHORITY: KRS 56.863(2), (9)

NECESSITY, FUNCTION, AND CONFORMITY: KRS 56.863(9) requires that the Kentucky Asset/Liability Commission promulgate administrative regulations that limit the net exposure of the Commonwealth as a result of the commission entering into financial agreements. This administrative regulation establishes the limits under which the commission may enter into financial agreements.

Section 1. Definitions. For the purpose of this administrative regulation:

- (1) "Hedge" means a position in a financial agreement taken to minimize or eliminate the risk associated with an existing instrument or portfolio of instruments;
- (2) "Net exposure" means the difference between the sum of the notional amount of financial agreements based on interest-sensitive assets or interest-sensitive liabilities under which variable payments are owed, less the sum of the notional amount of financial agreements based on interest-sensitive assets or interest-sensitive liabilities under which fixed payments are owed, respectively;
- (3) "Notional amount" means the nominal amount on which a financial agreement is based;
- (4) "Obligations" means notes, leases, bonds, or other financial liabilities;
- (5) "Par amount" means the face or nominal value of a security.

Section 2. Guidelines of the Commission in the Use of Financial Agreements. The commission shall enter into financial agreements pursuant to the following guidelines:

- (1) The commission shall utilize financial agreements in a prudent and nonspeculative manner;
- (2) The commission shall only enter into financial agreements with parties which are rated in one (1) of the three (3) highest rating categories by one (1) of the following rating agencies:
 - (a) Fitch Investors Service, L.P.;
 - (b) Moody's Investors Service; or
 - (c) Standard & Poor's Ratings Group;
- (3) Financial agreements resulting in variable rate obligations for the Commonwealth shall be entered into only if the aggregate of all variable rate obligations under financial agreements does not exceed a net exposure of more than ten (10) percent of state obligations outstanding which are supported by appropriations by the General Assembly at the time the agreement is executed. Financial agreements utilized related to the issuance of tax and revenue anticipation notes shall be excluded from this limitation;
- (4) Financial agreements utilized for the purpose of refunding or aiding in the refunding of obligations of the Commonwealth shall be limited to a notional amount not to exceed the par amount and stated final maturity of the refunding obligations;
- (5) Financial agreements utilized as part of a debt service reserve fund investment strategy shall be limited to a notional amount not to exceed the maximum required debt service reserve fund amount required under the resolution, trust indenture, or agreement establishing the debt service reserve fund;
- (6) Financial agreements utilized for the purpose of maximizing investment income and alleviating mismatches between an advance refunding escrow and debt service payments due on an obligation shall be limited to a notional amount not to exceed the par amount of the securities held in the escrow plus interest; and
- (7) No more than ten (10) percent of the Commonwealth's investment portfolio shall be subject to financial agreements utilized for the purpose of managing the net interest

margin. Financial agreements based on the Commonwealth's interest-sensitive assets shall be coordinated with the State Investment Commission.
(24 Ky.R. 790; 1055; eff. 10-22-1997; Crt eff. 4-8-2019.)