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September 8, 2006

The Honorable Steve J. Theriot
Legislative Auditor
State of Louisiana
P.O. Box 94397
Baton Rouge, Louisiana 70804

Dear Steve:

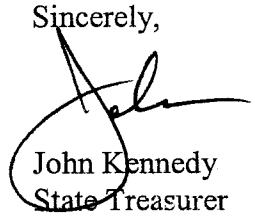
From time to time, the Treasury's Investments Division and JPMorgan Chase Bank's (the Louisiana central depository institution) Government Banking area receive inquiries from agencies, higher education institutions, municipalities and other political subdivisions requesting clarification of the status of money market mutual funds commonly used in banking "sweep" accounts. Often auditors question whether or not these funds require collateralization.

Investments in certain mutual funds are specifically authorized in the Louisiana Revised Statutes. For funds of the State Treasury LA RS 49:327 (B)(1)(f) specifically allows "money market funds consisting solely of securities otherwise eligible for investment by the state treasurer." LA RS 49:327 (C)(1)(b) authorizes institutions of higher education to "invest monies under their control and not on deposit in the state treasury in any or all of the instruments set forth in Subsection B(1) of this Section" which includes the above money market fund citation. LA RS 33:2955 (A)(1)(e), which covers all municipalities, parishes, school boards and any other political subdivisions of the state, also specifically authorizes investments in "mutual or trust fund institutions which are registered with the Securities and Exchange Commission under the Securities Act of 1933 and the Investment Act of 1940, and which have underlying investments consisting solely of and limited to securities of the United States government or its agencies investments in money market mutual funds."

1988 Attorney General's Opinion 88-0546A established that certain mutual funds established as "Massachusetts business trusts" that restrict their allowable investments to those securities that are statutorily permissible investments are the functional equivalent of a direct investment in those securities.

Only cash deposits require collateralization; investments in statutorily permissible securities and their functional equivalents do not. Your assistance in promoting the awareness of this issue to your staff and audit firms throughout the state would be greatly appreciated.

Sincerely,



John Kennedy
State Treasurer

JNK/jb/dt

cc: Ron Henson
John Broussard
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Robbie Robinson, LLA
Tom Cole, LLA
David Greer, LLA
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