



# DoD NAF Treasury Management Open Forum Meeting Minutes

16 November 2016

## **Meeting Purpose & Objectives**

The DoD NAF Treasury Open Forum meeting is held annually, in accordance with enclosure 9 of Department of Defense Instruction (DoDI) 1015.15, to provide a free exchange of information regarding treasury management practices. The Air Force Services Activity, Financial Management hosted the 2016 meeting.

## **Agenda Items**

- 1. Welcome and Overview**
- 2. DoDI 1015.15 Review**
- 3. DoD Annual NAF Treasury Management Report Templates**
- 4. Collaboration between Services**
- 5. Closing Remarks**

## Meeting Attendees

- Mr. Scott Howard, Air Force SVA/FM (Meeting Host)
- Mr. AC Berry, Air Force SVA/FM
- Ms. Tina Hudson, SVA/FM
- Mr. Cameron Zablocky, Air Force SVA/FM
- Mr. Paul Burk, Army IMCOM G9
- Mr. Laurent Lant, Army IMCOM G9
- Mr. Robert Ramsey, Army IMCOM G9
- Mr. Samuel Steffanina, Army IMCOM G9
- Mr. Matthew Keathley, Navy CNIC
- Ms. Pyper Brenner, Marine Corps MCCS
- Ms. Pat Craddock, Marine Corps MCCS
- Mr. Fred Stout, Marine Corps MCCS
- Mr. Jim Jordan, AAFES
- Mr. William Moring, AAFES
- Mr. Brian Poss, AAFES
- Mr. Andrew Howell, NEXCOM
- Mr. Tom McDonald, NEXCOM
- Mr. Michael Curtis, OSD, MC&FP

## Meeting Notes

### 1. Welcome and Overview – Mr. Scott Howard, Air Force Services Activity, Financial Management (Meeting Host)

- a. Mr. Howard welcomed the participants to the second meeting of the calendar year, hosted by the Air Force. He stated that there were no Service presentations planned for this meeting.

### 2. DoDI 1015.15 Review – Mr. Michael Curtis, OSD, MC&FP

- a. Inter-Service Borrowing (6.10)
  - Mr. Curtis stated the Department is not engaging in inter-Service borrowing as requested by Congress in the Conference Report that accompanied the National Defense Authorization Act conference report for FY 1995. The origin of the prohibition will be referenced in the revised DoDI 1015.15 to inform the reader of the policy.
  - Mr. Curtis stated it is possible to pursue a policy change that would allow inter-Service borrowing, but it would require approval from many levels within the Department. Mr. Burk stated that the Army would support a policy change because the Services would likely get better rates by keeping money within DoD and borrowing from other Services. Mr. Jordan supported pursuing a policy change. As a net borrower, AAFES will gain portfolio diversity. Mr. Keathley supported pursuing the policy change and stated that Navy and NEXCOM have a similar arrangement to Army and AAFES, and have gotten rates one-third to one-fourth of the commercial rate (e.g., a 1.80% commercial rate versus a 0.60% CNIC rate). Mr. Stout supported pursuing the policy change and stated that the Marine Corps is the only Service without an arrangement to borrow or lend. Mr. Burk stated the Army will draft language and a justification regarding the policy change and share it among the other Services for comment.
- b. Investments with Interest Rate of Zero (E9.1.3)
  - Mr. Curtis stated that in 2013, the Army suggested allowing investment yields to fall to zero, but not below zero. Mr. Lant explained that current low interest rates have a danger of falling to zero overnight and that current policies limit what repurchase agreements and reverse repurchase agreements the Services can invest in. Mr. Stout also agreed and noted that repurchase dealers had quoted negative interest rates before and it is not always possible to negotiate these rates up to zero. Mr. Curtis stated that he is not convinced policy should allow negative

rates. Mr. Burk responded that a slight negative return is better than leaving money in a custody bank because the custody bank's deposits are not FDIC insured, thus creating an exposure to a total loss of funds (i.e., a small loss is obviously better than a total loss). Mr. Jordan noted that this risk can be eliminated with inter-Service borrowing. Mr. Stout added that safety of the investments is the most important of the group's principles, and a negative interest rate should be okay if it works toward this principle (i.e., the funds are more secure with the investment bank vs. the custody bank). Mr. Stout suggested eliminating the last sentence and leaving in "invest in competitive rates." Mr. Moring agreed. Mr. Curtis asked Mr. Lant to work with Mr. Jordan to draft language and justification regarding this issue.

**c. Cash on Hand – Minimum Requirements to Satisfy Immediate Needs (E9.2)**

- Mr. Curtis stated there was a need for a definition of the term "immediate needs." Mr. Burk recommended clarifying the language by adding "in order to meet foreseeable obligations" or something similar. Mr. Burk indicated that the Army will draft clarifying language for consideration.

**d. Adequate Funds for NAFIs – Quarterly Assessment (E9.2.1.3)**

- Mr. Curtis asked if the mention of "adequate funds" needed greater clarification to be more descriptive. Mr. Lant stated that it is up to each Service to define their own liquidity needs and that adequate funds should be defined on an "immediate needs" basis as well. Adequate funds should be defined at both NAFI level and installation level. Mr. Curtis suggested leaving the language as is. The Services agreed to make no changes.

**e. Money Market Funds (E9.4.7)**

- Mr. Curtis stated that in 2013, the Army wanted to remove the \$50 million cap on money market funds. Mr. Jordan stated that AAFES places large infusions of cash into money market accounts (two private placements in 2009 for \$650 million and \$100 million and then another in 2012 for \$200 million). Putting these large dollar amounts in a bank account is riskier than holding them in a money market account. Additionally, AAFES can earn interest income in a money market, but the interest earned in a bank account is minimal. He suggested adding language allowing exceptions for one-time cash infusions. Mr. Burk added that bank balances have increased since the creation of Uniform Funding and Management and investment options for these larger balances are limited because of the \$50 million cap. Mr. Burk supports

removing this limitation. Mr. Keathley, Mr. Howard, and Mr. McDonald concurred.

**f. Qualified Investment Personnel (E.9.7.3)**

- Mr. Curtis stated that “qualified personnel” may need to be better defined. Personnel turnover is not currently high, but a clarification may be needed in order to prepare for the future. Mr. Lant stated that “qualified personnel” is specific enough, and that anything more specific should be internal policy, as each Service has its own hiring board and recruiting policy. He recommended leaving the phrase as is. Mr. Keathley and Mr. Howard concurred.

**g. Marked-to-Market – Semi-Annually (E9.7.4.6)**

- Mr. Curtis asked if semi-annual marking-to-market is often enough. Mr. Lant stated that the DoDI is high-level policy and that Services are free to mark-to-market more often if they are so inclined. Mr. Keathley stated that the current policy does not address new issue certificates of deposit (CDs), which do not have a price. He recommended qualifying price with the phrase “if available.” Mr. Lant agreed. Mr. Burk recommended taking out the last clause that reads “valuations derived using mathematical models and pricing algorithms” and Mr. Howard agreed.

**h. Total Rate of Return Formula (Table E9.T.2)**

- Mr. Curtis asked if it is better to use an internal rate of return formula instead of the total rate of return. The current rate of return formula is a time weighted formula, which provides a different result than an internal rate of return formula. Mr. Curtis stated that one advantage to keeping with the original formula is that it provides comparability to previous years. Mr. Lant stated that he would like to keep the current formula. There was no disagreement from the group.

**i. Hedging – Horizon Extended to 18 Months (E10.2.1)**

- Mr. Curtis stated that in 2013, NEXCOM suggested allowing operational hedging requirements for 18 months instead of one year. Mr. Moring recommended making the change to extend because it provides more flexibility. Mr. Curtis asked if there was any opposition to making the change. There was none.

**j. Hedging – Use of Future Contracts vs. Forward Contracts (E10.2.1)**

- Section E10.2.1 only mentions forward contracts. Futures contracts are sometimes thought of as less risky than forward contracts because they

are more standardized and more liquid. Mr. Zablocky disagreed, stating that he thought futures contracts are more risky because they have to be continuously monitored. Mr. Lant recommended that if any change is made, add futures contracts as an option instead of replacing forward contracts with futures contracts. Mr. Curtis asked if any Services wanted to make this change. None did.

**k.** Detailed Written Policy on Foreign Currency Hedging (E10.2.3)

- Mr. Burk stated that the Army provides a narrative to their oversight committee on foreign currency hedging but he is not sure if there is a formal written policy. He will draft some language and send to Mr. Curtis. Mr. Curtis recommended adding a validation statement to the annual oversight report that the Service investment oversight committee has reviewed the written policy, if applicable. There were no objections.

**l.** New Glossary Items

- Definition of “Bond Market Association Master Repurchase Agreement”: Mr. Keathley stated that the Navy uses this agreement and he would send a copy to Mr. Curtis. He recommended retaining this in the DoDI and adding a definition to the glossary.
- Definition of “Cash Concentration System”: Mr. Burk volunteered to help define this glossary item.

**m.** Listing: Accepted Issuers of Government and Agency Securities (Enclosure 9, Attachment 1)

- Mr. Curtis had made some minor edits to the listing in February 2016. He asked if there were any additional suggested edits. There were none.

**n.** Listing: Indices (Enclosure 9, Attachment 2)

- Mr. Curtis had also made some minor edits to this listing in February 2016 and asked if there were any additional suggested edits. Mr. Keathley stated that he did not see the Merrill Lynch Government Indices. He would send an email to Mr. Curtis with the information on those indices.

**o.** Annual Oversight Report (Enclosure 9, Attachment 3)

- Mr. Curtis stated that he would like to add two statements to the report that provide validation that the Service oversight committee has reviewed the following: (1) the Service’s chosen investment benchmark, and (2) a detailed list of investments held by the Service. There were no comments from the Services.

- p.** Military Community and Family Policy (MC&FP) Oversight of NAF Retirement and 401(k) Funds
- Mr. Curtis stated that MC&FP will be reviewing actuary reports and audited financial statements of the NAF retirement and 401(k) funds. The extent of the oversight of NAF retirement and 401(k) funds will be to review the actuary reports and audited financial statements to ensure the funds are solvent and being managed in accordance with sections 6-8 of Enclosure 3 of Vol 1408 of DoDI 1400.25. MC&FP will not be creating an "enclosure 9" for the investment side of the NAF pension and 401K funds. The review and analysis will consist of what is presented in the actuary reports and the annual audited financial statements.

### **3. DoD Annual Report Templates – Mr. Michael Curtis, OSD, MC&FP**

- a.** Mr. Curtis stated that the DoD Annual NAF Treasury Management Report templates were discussed in February and that the only change since then is to Attachment 9, in which the credit exposure section is broken out into three subsections. He also explained that the templates are in one Excel workbook so they can eventually be housed on an accessible website.
- b.** Mr. Curtis stated that the annual report templates in the Excel format will be tasked out to the Services in January 2017 for completion by April 1, 2017, pursuant to DoDI 1015.15.

### **4. Collaboration between Services – Mr. Michael Curtis, OSD, MC&FP**

- a.** Mr. Curtis gave background on the history of collaboration among the Services. During the Task Force on Common Services, representatives from the Banking and Investment (B&I) Program participated in a Rapid Improvement Event (RIE) to identify opportunities for cross-Service collaboration. In that RIE, the B&I participants identified several "root causes" for program challenges and developed recommendations to address these root causes. The B&I recommendations fall into four categories: operations, training, technology, and policy, and there are some opportunities for the Services and OSD to work together to standardize processes, improve program efficiencies, and most importantly, reduce costs.
- b.** Mr. Curtis asked if the Services had any savings or efficiency initiatives in contracting. Mr. Lant stated that there is no way to combine contracts right now, but that the Army has started adding piggyback clauses into its contract since the RIE. Mr. Keathley stated that there has been some informal but active sharing of ideas. Mr. Berry stated that the Air Force has some initiatives in retirement and 401(k) plans, and is exploring piggybacking with the Army on these plans. He welcomes the opportunity for savings.



- c. Mr. Curtis asked if there was any sharing of audits and best practices. Mr. McDonald stated that the NEXCOM Chief Financial Officer has monthly calls with AAFES and Commander, Navy Installations Command, to review various financial items. Mr. Lant stated that the Army's investment committee has a Navy point of contact. Ms. Craddock stated that the Marine Corps started to have calls with NEXCOM once every two months and that these calls have been very helpful.
- d. Mr. Curtis stated that he would like to continue the conversation around opportunities to collaborate among the Services and that he will follow-up with an email to the NAF Treasury managers.

#### 5. Closing Remarks – Mr. Scott Howard, Air Force SVA/FM

- a. Mr. Howard thanked the participants for attending the teleconference. Summary of actions and due outs are listed below.

#### Action Items

Item	POC
Army to revise policy on inter-Service borrowing and share with other Services for comment	Mr. Paul Burk
Army to work with AAFES to revise policy on investments with an interest rate of zero	Mr. Laurent Lant, Mr. Jim Jordan
Army to clarify language on cash on hand and immediate needs	Mr. Paul Burk
Army to send narrative on foreign currency hedging to Mr. Curtis	Mr. Paul Burk
Army to define "Cash Concentration System" in glossary	Mr. Paul Burk
Army to send information on Merrill Lynch Government Indices to Mr. Curtis	Mr. Paul Burk
MWR & Resale Policy to send out tasker for Annual Report Templates	Mr. Michael Curtis
MWR & Resale Policy to follow up with Services about existing collaboration initiatives	Mr. Michael Curtis

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Approved:



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Stephanie Barna

Acting Assistant Secretary of Defense (Manpower and Reserve Affairs)