

CITY OF HALTOM CITY INVESTMENT POLICY

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CITY OF HALTOM CITY INVESTMENT POLICY

1. POLICY

It is the policy of the City of Haltom City to invest public funds in a manner that will provide the maximum security and the best commensurate yield while meeting the daily cash flow demands of the City and conforming to the statutes governing the investment of public funds. This Policy sets forth the investment program of the City of Haltom City and the guidelines to be followed in achieving its objectives. All employees of the City directly involved with investment activities shall have read and be familiar with this policy. All investment activities conducted by the City shall be in accordance with this policy and applicable portions of Chapter 2256 of the Government Code herein referred to as the Public Funds Investment Act.

2. SCOPE

This Investment Policy applies to all aspects of investing the financial assets of all funds and trust accounts of the City. These funds are accounted for in the City's Comprehensive Annual Financial Report (CAFR) and include:

1. General Fund
2. Special Revenue Funds
3. Capital Project Funds
4. Enterprise Funds
5. Trust and Agency Funds
6. Debt Service Funds
7. Internal Service Funds
8. Any new fund created by the City

The City of Haltom City will consolidate cash balances from all funds to maximize investment earnings. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

3. OBJECTIVES

The objectives of the City of Haltom City's investment activities, listed in order of priority, shall be as follows:

Safety

The primary objective of the City's investment activity is the preservation of capital in the overall portfolio. Each investment transaction shall seek first to ensure that principal losses are avoided, whether they are from securities default or erosion of market value. However, it must be understood that an element of risk is inherent with all types of investments. Recognition of, and minimization of risk is the responsibility of Haltom City's Investment Officer and designee(s).

Liquidity

The City's investment portfolio shall maintain a balance sufficient to meet all obligations of the City when payments are due. Liquidity shall be achieved by matching investment maturities with

forecasted cash flow requirements and by investing in authorized securities with active secondary markets. A cash flow forecast shall be prepared by the Finance Department and updated at least every three months.

Yield

The City's cash management portfolio shall be designed with the objective of regularly exceeding the average rate of return on the six-month U.S. Treasury Bill or the average Federal Funds rate (whichever is higher) for investments not subject to arbitrage. The investment program will seek to attain a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to safety and liquidity objectives above.

4. STRATEGY

The strategy for all pooled funds is to assure that cash flows are matched with projected needs and assume adequate liquidity and safety, (as defined in Section 3, Liquidity). Purchasing high quality securities in a laddered structure or utilizing an investment pool may accomplish this. The composite portfolio will have a dollar weighted average maturity of two years or less. The dollar weighted average maturity will be calculated using the stated final maturity dates of each security. Furthermore, the following purposes and guidelines by fund-type are also considered when investing:

Capital Project Funds

Funds for capital projects or special purposes should allow for flexibility and unanticipated project outlays by having a portion of their investments in highly liquid securities. The stated final maturity dates of securities held should not exceed the estimated cash flow requirements of the project. Securities should be of high quality, with short to medium term maturities.

Debt Service Funds

Funds for Debt Service should assure liquidity adequate to cover the debt service obligation on the required payment date. Securities purchased shall not have a stated final maturity date which exceeds the debt service payment date, or funds shall be maintained in an investment pool or money market mutual fund to be available for debt service payments.

Operating Funds

The investment strategy for operating funds has as their primary objective to assure that anticipated cash flows are matched with adequate investment liquidity. The secondary objective is to structure a portfolio, which will minimize volatility during economic cycles. This may be accomplished by purchasing high quality, short-term securities, which will complement each other in a laddered maturity structure.

5. RESPONSIBILITIES AND CONTROL

Investment Committee

An Investment Committee, consisting of the City Manager (or designee), Director of Finance, and the Controller shall meet at least quarterly to determine general strategies and to monitor results. The Investment Committee shall include in its deliberations such topics as: performance reports, economic outlook, portfolio diversification, maturity structure, potential risk to the City's funds, authorized brokers and dealers, and the target rate of return on the investment portfolio.

Investment Officer and Training

Authority to manage the City's investment program is derived from a resolution of the City Council.

The Director of Finance is designated as Investment Officer of the City and is responsible for investment decisions and activities. Sec. 2256.005 (f). The Investment Officer shall establish written procedures for the operation of the investment program, consistent with this investment policy. The Investment Officer and Controller shall attend ten hours of training sessions related to investment practices within twelve months of taking office or assuming duties. Thereafter, eight hours of training are required not less than once in a two-year period that begins on the first day of the local government's fiscal year and consists of the two consecutive fiscal years after that date. (Effective September 1, 2011)

Capability of Investment Management

The City shall provide training in investments for the investment personnel through courses and seminars offered by professional organizations and associations in order to insure the quality and capability of investment management.

Delegation of Authority

The Investment Officer is responsible for investment decisions and activities, under the direction of the City Manager. The Investment Officer may further delegate certain aspects of the duties as needed only if such delegation does not weaken the internal controls necessary to maintain the integrity of this policy. The Investment Officer shall develop and maintain written administrative procedures for the operation of the investment program, consistent with these policies. The Investment Officer shall be responsible for authorizing investments and the Controller shall establish procedures to properly account for investments and pledged collateral in order to maintain appropriate internal controls. These controls shall be reviewed annually by an independent auditor and shall be designed to prevent loss of public funds due to fraud, error, misrepresentation, unanticipated market changes or imprudent actions.

Signatory Responsibilities

Bonded officials share certain signatory responsibilities for investment transactions with the Finance Department for backup purposes. Investment Officers are the authorized investment signatories to transact investment wire transfers for the City. The City shall use, whenever possible, pre-formatted (templates) wire transfers to restrict the transfer of funds to pre-authorized accounts only. All wire transfers will require secondary authorization by any two of the Finance Staff authorized for bank transactions.

Prudence

All investments shall be designed and managed in a manner responsive to the public trust and consistent with State and Local law. Investments shall be made with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived. Sec. 2256.006 (a)

Liability

The Investment Officer, and other employees directly involved in the investment function, acting in accordance with written procedures and exercising due diligence, shall not be held personally responsible for a specific security's credit risk or market price changes, provided that material deviations are reported immediately and that appropriate action is taken to control adverse developments.

Monitoring and Adjusting the Portfolio

The Investment Officer, at least on a monthly basis, will monitor the contents of the portfolio, the

available markets and the relative value of competing instruments, and will adjust the portfolio accordingly.

Active Portfolio Management

The City intends to pursue an active versus a passive portfolio management philosophy. That is, securities may be sold before they mature if market conditions present an opportunity for the City to benefit from the trade.

Reporting Requirements

The Investment Officer shall maintain a current listing of investments for management purposes. Not less than quarterly, the Director of Finance shall prepare and submit to the City Manager and City Council a report prepared in a manner that will allow the City to ascertain whether investment activities during the reporting period have conformed to the Investment Policy. The report shall include a summary statement of investment activity prepared in compliance with generally accepted accounting principles. The report will include the following:

1. A listing of individual securities held at the end of the reporting period.
2. Unrealized gains or losses resulting from appreciation or depreciation by listing the beginning and ending book and market value of securities for the period.
3. Additions and changes to the market value during the period.
4. Average weighted yield to maturity of portfolio as compared to applicable benchmark.
5. Listing of investments by maturity date.
6. Fully accrued interest for the reporting period.
7. The percentage of the total portfolio which each type of investment represents.
8. Statement of compliance of the City's investment portfolio with state law and the investment strategy and policy approved by the City Council.
9. Signatures of each investment officer of the City.

A formal annual review of the quarterly reports will be performed by an independent auditor with the results reported to the Audit Committee and City Council.

Monitoring of Market Value

Market value of all securities in the portfolio will be determined on a monthly basis. These values will be obtained from the City's third party safekeeping custodian and disclosed to the City Council no less than quarterly.

Policy Revisions

The investment policy of the City of Haltom City shall be reviewed and changed as deemed necessary by the Investment Committee and forwarded to the City Council for approval by resolution annually. Investment Policy revisions may become necessary with changes in state law, City needs, the economy, and investment opportunities.

6. ETHICS AND CONFLICTS OF INTEREST

Ethics

All participants in the investment process shall seek to act responsibly as custodians of the public trust and comply with the Public Funds Investment Act reporting requirements. Investment officials shall avoid any transaction that might impair public confidence in the City's ability to govern effectively.

Conflicts of Interest

Employees and investment officials involved in the investment process shall refrain from any

personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions.

Disclosure

Employees and investment officials involved in the investment process shall disclose to the City Manager any material financial interests in financial institutions that conduct business with the City of Haltom City, and shall further disclose any large personal financial or investment positions that could be related to the performance of the City's portfolio.

Furthermore, employees and investment officials involved in the investment process must file a disclosure statement with the Texas Ethics Commission and City Council if:

1. the officer has a personal business relationship with a business organization offering to engage in an investment transaction with the City; or
2. the officer is related within the second degree by affinity or consanguinity, as determined under Chapter 573 of the Texas Government Code, to an individual seeking to transact investment business with the entity.

For purposes of this policy, an investment officer has a personal business relationship with the City if:

1. the investment officer owns 10 percent or more of the voting stock or shares of the business organization or owns \$50,000 or more of the fair market value of the business organization;
2. funds received by the investment officer from the business organization exceed 10 percent of the investment officer's gross income for the previous year; or
3. the investment officer has acquired from the business organization during the previous year investments with a book value of \$50,000 or more for the personal account of the investment officer.

7. AUTHORIZED INVESTMENTS

Assets of funds of City of Haltom City may be invested in:

- A. Obligations of the United States of America, its agencies and instrumentalities.
- B. Other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, this state or the United States.
- C. Fully insured or collateralized certificates of deposits which are guaranteed or insured by the Federal Deposit Insurance Corporation and not otherwise restricted for sale in Texas in any way.
- D. Obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent.
- E. Fully collateralized direct repurchase agreements provided the City has on file a signed Master Repurchase Agreement, approved by the City Attorney, which details eligible collateral, collateralization ratios, standards for collateral custody and control, collateral valuation, and conditions for agreement termination and provided the repurchase agreement:
 1. has a defined termination date;
 2. is secured by obligations of the United States of its agencies and instrumentalities;

3. requires the securities being purchased by the City to be assigned to the City held in the City's name, and deposited at the time the investment is made with the City or with a third party selected and approved by the City; and
4. is placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in this state.

F. Texas Local Government Investment Pools as defined by section 2256.016 of the Public Funds Investment Act and approved by the City Council. The pool must be continuously rated no lower than AAA or AAA-m or at an equivalent rating by at least one nationally recognized rating service. The pool's portfolio must be limited to investments permitted by the Public Funds Investment Act and the pool's portfolio may be invested in any security permitted by the Public Funds Investment Act.: A public funds investment pool created to function as a money market mutual fund must mark its portfolio to market daily and, to the extent reasonably possible, stabilized at a \$1 net asset value. To be eligible to receive funds from and invest funds on behalf of the City, an investment pool must furnish to the City an offering circular and other information required by the Public Funds Investment Act.

Any investment pool that is created to function as a money market mutual fund must maintain a maximum average dollar weighted maturity that does not exceed 90 days; and "Any investment pool that does not meet the requirements of one that is created to function as a money market mutual fund, must maintain a maximum average dollar weighted maturity that does not exceed 365 days (or 366 days in the case of a leap year) and must provide a fixed interest rate and fixed maturity term for each pool position."

G. No-load money market mutual funds that are registered with and regulated by the Securities and Exchange Commission. The mutual fund must have a weighted average maturity of 90 days or less and a stable net asset value of \$1 per share. The mutual fund must provide the City with a prospectus and other information required by the SEC Act of 1934(15 U.S.C. Section 78a et. Seq.) or the Investment Company Act of 1940 (15 U.S.C. Section 80a 1 et seq.)

H. Other instruments as specifically authorized by the Public Funds Investment Act and approved by the City Council and, included in the Investment Policy.

8. PROHIBITED INVESTMENTS AND PRACTICES

The Investment Officer shall not knowingly permit City funds to be invested with any of the following investment instruments that are strictly prohibited:

- A. Obligations whose payment represents the coupon payments of the outstanding principal balance of the underlying mortgage-backed security collateral and pay no principal;
- B. Obligations whose payment represents the principal stream of cash flow from underlying mortgage-backed security collateral and bears no interest;
- C. Collateralized mortgage obligations that have a stated final maturity date of greater than 10 years;
- D. Collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index; and
- E. Any other restricted instruments or limitations that involve outright speculation.

The practice of "leveraging" whereby funds are borrowed for the sole purpose of investing shall not be practiced.

An investment that requires a minimum rating under this policy does not qualify as an authorized investment during the period the investment does not have the minimum rating. All prudent measures will be taken to liquidate an investment that is downgraded to less than the required minimum rating.

The City is not required to liquidate investments that were authorized investments at the time of purchase per PFIA 2256.017

9. RISKS AND DIVERSIFICATION

The City of Haltom City recognizes that investment risks can result from issuer defaults, market price changes or various technical complications leading to temporary illiquidity. Risk is controlled through portfolio diversification, which shall be achieved by the following general guideline:

- A. Risk of issuer default is controlled by limiting investments to those instruments allowed by this policy and the Public Funds Investment Act, which are described herein.
- B. Risk of market price changes shall be controlled by avoiding over-concentration of assets in a specific maturity, specific issuer, or specific class of securities. Diversification strategies shall be established and periodically reviewed.

The diversification strategy will include the following:

1. Limiting investments to avoid over concentration in securities from a specific issuer or business sector, excluding U.S. Treasury Securities;
2. Limiting investments in securities that have higher credit risks;
3. Investing in securities of varying maturities based on cash flow projections; and
4. Continuously investing a portion of the portfolio in readily available funds, such as local government investment pools, money market funds, or overnight repurchase agreements to ensure that appropriate liquidity is maintained to meet ongoing obligations.

The Investment Officer, to the extent possible, will attempt to match investments with anticipated cash flow requirements. Matching maturities with cash flow dates will reduce the need to sell securities prior to maturity, thus reducing market risk. Unless matched to specific requirements, the Investment Officer may not invest more than 50% of the portfolio for a period of greater than two years. Unless matched to specific requirements, the Investment Officer may not invest any portion of the portfolio for a period of greater than three years. The weighted average maturity for the portfolio shall remain less than two years. Restricted Reserves required by bond covenants allow for maturities equal to the life of the bond.

The following maximum limits, by instrument, are established for the City's total portfolio:

1. U.S. Treasury Securities	100%
2. Agencies and Instrumentalities	75%
3. Certificates of Deposit	50%
4. Repurchase Agreements	50%
5. Money Market Mutual Funds	50%
6. Authorized Pools (per pool 50%, 80% combined)	80%

10. SELECTION OF BANKS AND DEALERS

Not less than every five years, a depository shall be selected through the City's banking services procurement process, which shall include a formal request for proposal. In selecting depositories, the credit worthiness of institutions shall be considered, and the Director of Finance shall conduct a comprehensive review of prospective depositories credit characteristics and financial history.

The Investment Committee shall, at least annually, review, revise, and adopt a list of qualified broker/dealers and financial institutions authorized to engage in investment transactions with the City. For brokers and dealers of government securities, the Investment Committee shall select only primary government securities dealers that report daily to the New York Federal Reserve Bank, also known as the "primary government securities dealer," or other firms that have been certified by the Investment Committee's certification process. All brokers and dealers must be on the approved dealer list in order to transact business with the City.

A written copy of this Investment Policy shall be presented to any person offering to engage in an investment transaction with the City. Investments shall only be made with those business organizations (including money market mutual funds and local government investment pools), which have provided the City a broker questionnaire and certification of having received and reviewed the City's Investment Policy. The firm must acknowledge that it has implemented reasonable internal procedures and controls in an effort to preclude imprudent investment transactions conducted between the entity and the organization that are not authorized by the entity's Investment Policy, except to the extent that this authorization is dependent on an analysis of the makeup of the entity's entire portfolio or requires an interpretation of subjective investment standards.

11. COMPETITIVE BIDDING

Competitive Bidding will follow the City's Purchasing & Asset Management Manual policy.

12. SAFEKEEPING OF SECURITIES

Safekeeping Agreement

All safekeeping arrangements shall be in accordance with a safekeeping agreement approved by the Investment Committee, which clearly defines the procedural steps for gaining access to the collateral, should the City of Haltom City determine that the City's funds are in jeopardy. The safekeeping institution, or Trustee, shall be the Federal Reserve Bank or an institution not affiliated with the firm pledging the collateral. The safekeeping agreement shall include the signatures of the City of Haltom City, the firm pledging the collateral, and the Trustee.

Collateralization

The City requires that all uninsured collected balances plus accrued interest, if any, in depository accounts be secured in accordance with the requirements of state law. All deposits and investments of City funds other than direct purchases of US Treasuries or Agencies shall be secured by pledged collateral or letter of credit issued by a federal home loan bank. In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be 102% of market value of principal and accrued interest on the deposits or investments less an amount insured by FDIC or FSLIC. Evidence of the pledged collateral or Letter of Credit shall

be maintained by the Director of Finance or a third party financial institution. Financial institutions serving as City depositories will be required to sign a Depository Agreement with the City which details eligible collateral, collateralization ratios, standards for collateral custody and control, collateral valuation, rights of substitution and conditions for agreement termination. Repurchase agreements shall be documented by a specific agreement noting the collateral pledge in each agreement. Collateral shall be reviewed monthly to assure that the market value of the pledged securities is adequate.

Collateral Defined

The City of Haltom City shall accept only the following securities as collateral:

- A. FDIC and FSLIC insurance coverage.
- B. A bond, certificate of indebtedness, Agency Security guaranteed or Insured by the United States or its Agencies and Instrumentalities, Treasury Notes of the United States, or other evidence of indebtedness of the United States that is guaranteed as to principal and interest by the United States.
- C. Obligations, the principal and interest on which, are unconditionally guaranteed or insured by the State of Texas.
- D. A bond of the State of Texas or of a county, city or political subdivision of the State of Texas having been rated as investment grade (investment rating no less than "B" or its equivalent) by a nationally recognized rating agency with a remaining maturity of ten (10) years or less.
- E. Letter of Credit issued by a federal home loan bank.

Subject to Audit

All collateral shall be subject to inspection and audit by the Director of Finance or the City's independent auditors.

Delivery vs. Payment

With the exception of State Pools and Money Market Mutual Funds, all transactions will be executed with authorized security dealers and financial institutions on a delivery-versus-payment (DVP) basis. That is, funds shall not be wired or paid until verification has been made that the Custodian received the correct security. The security shall be held in the name of the City or held on behalf of the City. The Custodian's records shall assure the notation of the City's ownership of or explicit claim on the securities. The original copy of all safekeeping receipts shall be delivered to the City. Investment securities shall be held by a third-party custodian designated by the City, and held in the City's name as evidenced by safekeeping receipts of the institution with which the securities are deposited.

13. MANAGEMENT AND INTERNAL CONTROL

The Director of Finance, or designee, shall establish a system of internal controls that shall be reviewed by an independent auditor. The controls shall be designed to prevent loss of public funds arising from fraud, employee error, and misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees or investment officers of the City. In conjunction with the annual financial audit, a compliance audit shall be performed which includes an audit of management controls on investments and adherence to the City's established policy. The Investment Officer is responsible for executing investment transactions and the accounting division is responsible for preparation of accounting records based on documentation prepared by the Investment Officer.

GLOSSARY OF COMMON TREASURY TERMINOLOGY

Agencies: Federal agency securities.

Asked: The price offered for securities.

Broker: A broker brings buyers and sellers together for a commission paid by the initiator of the transaction or by both sides; he does not position. In the money market, brokers are active in markets in which banks buy and sell money and in interdealer markets.

Certificate of Deposit (CD): A time deposit with a specific maturity evidenced by a certificate. Large-denomination CD's are typically negotiable.

Collateral: Securities, evidence of deposit or other property that a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

Annual Comprehensive Financial Report (ACFR): The official annual report for the City of Haltom City. It includes five combined statements and basic financial statements for each individual fund and account group prepared in conformity with GAAP. It also includes supporting schedules necessary to demonstrate compliance with finance-related legal and contractual provisions, extensive introductory material, and a detailed Statistical Section.

Coupon: (a) the annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value. (b) A certificate attached to a bond evidencing interest due on a payment date.

Dealer: A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his own account.

Debenture: A bond secured only by the general credit of the issuer.

Delivery versus Payment: There are two methods of delivery of securities: delivery payment and delivery versus receipt

(also called free). Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.

Discount: The difference between the cost price of a security and its value at maturity when quoted at lower than face value. A security selling below original offering price shortly after sale also is considered to be at a discount.

Discount Securities: Non-interest bearing money market instruments that are issued at a discount and redeemed at maturity for full face value, e.g., U.S. Treasury bills.

Diversification: Dividing investment funds among a variety of securities offering independent returns.

Federal Credit Agencies: Agencies of the Federal government set up to supply credit to various classes of institutions and individuals, e.g., S&L's, small business firms, students, farmers, farm cooperatives, and exporters.

Federal Deposit Insurance Corporation (FDIC): A federal agency that insures bank deposits, currently up to \$250,000 per deposit.

Federal Funds Rate: The rate of interest at which Fed funds are traded. This rate is currently pegged by the Federal Reserve through open-market operations.

Federal Home Loan Banks (FHLB): The institutions that regulate and lend a savings and loan associations. The Federal Home Loan Banks play a role analogous to that played by the Federal Reserve Banks vis-a-vis member commercial banks.

Federal National Mortgage Association (FNMA): FNMA, like GNMA, was chartered under the Federal National Mortgage versus Association Act in 1938. FNMA is a federal

corporation working under the auspices of the Department of Housing and Urban Development, **H.U.D.** It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans in addition to fixed-rate mortgages. FNMA's securities are also highly liquid and are widely accepted. FNMA assumes and guarantees that all security holders will receive timely payment of principal and interest.

Federal Open Market Committee (FOMC): Consists of seven members of the Federal Reserve Board and five of the twelve Federal Reserve Bank Presidents. The President of the New York Federal Reserve Bank is a permanent member while the other Presidents serve on a rotating basis. The Committee periodically meets to set Federal reserve guidelines regarding purchases and sales of Government Securities in the open-market as a means of influencing the volume of bank credit and money.

Federal Reserve System: The central bank of the United States created by Congress and consisting of a seven member Board of Governors in Washington, D.C. 12 regional banks and about 5,700 commercial banks that are members of the system.

Government National Mortgage Association (GNMA or Ginnie Mae): Securities guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loan associations, and other institutions. Security holder is protected by full faith and credit of the U.S. Government, Ginnie Mae securities are backed by FHA, VA or FMHM mortgages. The term pass-through is often used to describe Ginnie Maes.

Liquidity: A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow and reasonable size can be done at those quotes.

Local Government Investment Pool (LGIP): The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment.

Market Value: The price at which a security is trading and could presumably be purchased or sold.

Master Repurchase Agreement: To protect investors, many public investors will request that repurchase agreements be preceded by a master repurchase agreement between the investor and the financial institution or dealer. The master agreement should define the nature of the transaction, identify the relationship between the parties, establish normal practices regarding ownership and custody of the collateral securities during the term of the investment, provide remedies in the case of default by either party and clarify issues of ownership. The master repurchase agreement protects the investor by eliminating the uncertainty of ownership and hence, allowing investors to liquidate collateral if a bank or dealer defaults during the term of the agreement.

Maturity: The date upon which the principal or stated value of an investment becomes due and payable.

Money Market: The market in which short-term debt instruments (bills, commercial paper, bankers' acceptances, etc.) are issued and traded.

Open Market Operations: Purchases and sales of government and certain other securities in the open market by the New York Federal Reserve Bank as directed by the FOMC in order to influence the volume of money and credit in the economy. Purchases inject reserves into the bank system and stimulate growth of money and credit; sales have the opposite effect. Open market operations are the Federal Reserve's most important and most flexible monetary policy tool.

Portfolio: Collection of securities held by an

investor.

Primary Dealer: A group of government securities dealers that submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC) registered securities broker-dealers, banks and a few unregulated firms.

Prudent Person Rule: An investment standard. Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

Qualified Public Depositories: A financial institution which does not claim exemption from the payment of any sales or compensating use or ad valorem taxes under the laws of this state, which has segregated for the benefit of the commission eligible collateral having a value of not less than its maximum liability and which has been approved by the Public Deposit Protection Commission to hold public deposits.

Rate of Return: The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond or the current income return.

Repurchase Agreement (RP or REPO): A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security "buyer" in effect lends the "seller" money for the period of the agreement, and the terms of the agreement are structured to compensate him for this. Dealers use RP extensively to finance their positions. Exception: When the Fed is said to be doing RP, it is lending money that is, increasing bank reserves.

Safekeeping: A service to customers rendered by banks for a fee whereby securities and valuables of all types and

descriptions are held in the bank's vaults for protection.

SEC Rule 15C3-1: See uniform net capital rule.

Secondary Market: A market made for the purchase and sale of outstanding issues following the initial distribution.

Securities & Exchange Commission: Agency created by Congress to protect investors in securities transactions by administering securities legislation.

Treasury Bills: A non-interest bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months or one year.

Treasury Bond: Long-term U.S. Treasury securities having initial maturities of more than ten years.

Treasury Notes: Intermediate term coupon bearing U.S. Treasury securities having initial maturities from one to ten years.

Yield: The rate of annual income return on an investment, expressed as a percentage.

(a) **Income Yield** is obtained by dividing the current dollar income by the current market price of the security. (b) **Net Yield or Yield to Maturity** is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.

Uniform Net Capital Rule: Securities and Exchange Commission requirement that member firms as well as nonmember broker-dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called **net capital rule** and **net capital ratio**. Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities, one reason new public issues are spread

among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.