RESOLUTION NO. 14-97

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF MESQUITE, TEXAS, ADOPTING A REVISED INVESTMENT POLICY; AND DECLARING AN EFFECTIVE DATE.

WHEREAS, the City Council recognizes that effective cash management is essential to good fiscal management; and

WHEREAS, the City Council realizes the need to adopt a revised investment policy for the City of Mesquite;

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF MESQUITE, TEXAS:

SECTION 1. That the Investment Policy, attached hereto as Exhibit "A", is hereby adopted as the official investment policy of the City of Mesquite.

SECTION 2. That this resolution and the aforementioned investment policy shall take effect immediately from and after its passage as the law in such cases provides.

DULY RESOLVED by the City Council of the City of Mesquite, Texas, on the 7th day of April, 1997.

Cathye Ray
Cathye Ray
Mayor

ATTEST:

Ellen Williams
Ellen Williams
City Secretary

APPROVED:

B J Smith
B. J. Smith
City Attorney

CITY

OF

MESQUITE

INVESTMENT

POLICY

PREFACE

The purpose of this document is to set forth specific investment policy and strategy guidelines for the City of Mesquite in order to achieve the goals of safety, liquidity, yield, and public trust for all investment activity. The City Council of the City of Mesquite shall review its investment strategies and policy not less than annually. This policy serves to satisfy the statutory requirement (specifically the Public Funds Investment Act, Article 342a-2 V.T.C.S. (the "Act") to define, adopt and review a formal investment strategy and policy.

It is the policy of the City of Mesquite, Texas that, giving due regard to the safety and risk of investment, all available funds shall be invested in conformance with State and Federal regulations, applicable Bond Resolution requirements, adopted Investment Policy and adopted Investment Strategy.

Effective investment strategy development coordinates the primary objectives of the City of Mesquite's Investment Policy and cash management procedures with investment security risk/return analysis to enhance interest earnings and reduce investment risk and aggressive cash management to increase the available "investment period." Maturity selections shall be based on cash flow and market conditions to take advantage of interest earnings as a viable and material revenue to all City of Mesquite funds. The City of Mesquite's portfolio shall be designed and managed in a manner responsive to the public trust and consistent with the Investment Policy.

Each major fund type has varying cash flow requirements and liquidity needs. Therefore specific strategies shall be implemented considering the fund's unique requirements.

INVESTMENT STRATEGY

The City of Mesquite maintains a pooled investment portfolio which utilizes specific investment strategy considerations designed to address the unique characteristics of the fund groups represented in the portfolio. In order to minimize risk of loss due to interest rate fluctuations, investment maturities will not exceed the anticipated cash flow requirements of the funds. Investment guidelines by fund-type are as follows:

- Investment strategies for operating funds have as their primary objective to assure that anticipated cash flows are matched with adequate investment liquidity. The secondary objective is to create a portfolio structure which will experience minimal volatility during economic cycles. This may be accomplished by purchasing high quality, short- to medium-term securities which will complement each other in a laddered structure. The dollar weighted average maturity of 365 days or less will be calculated using the stated final maturity date of each security.

- Investment strategies for debt service funds shall have as the primary objective the assurance of investment liquidity adequate to cover the debt service obligations 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.

- Investment strategies for bond funds and for debt service reserve funds shall have as the primary objective the ability to generate a dependable revenue source to the appropriate fund from securities with a low degree of volatility. Except as may be required by the bond ordinance specific to an individual issue, securities should be of high quality, with short to medium term maturities.

CITY OF MESQUITE INVESTMENT POLICY

I. POLICY

It is the policy of the City of Mesquite (City) that after allowing for the anticipated cash flow requirements of the City and giving due consideration to the safety and risk of investment, all available funds shall be invested in conformance with these legal and administrative guidelines and to the maximum extent possible, at the highest rates obtainable at the time of investment.

Effective cash management is recognized as essential to good fiscal management. Investment interest is a viable and material source of revenue to City funds. The City's investment portfolio shall be designed and managed in a manner designed to maximize this revenue source, to be responsive to public trust, and to be in compliance with legal requirements and limitations.

Investments shall be made with the primary objectives of:

- Safety and preservation of principal
- Maintenance of sufficient liquidity to meet operating needs
- Maximization of yield on the portfolio
- Public trust from prudent investment activities

Earnings from investments will be allocated on a pro-rate basis by fund and used in a manner that will best serve the interests of the City of Mesquite.

II. PURPOSE

The purpose of this investment policy is to comply with Chapter 2256 of Title 10 of the Local Government Code("Public Funds Investment Act") which requires each city to adopt a written investment policy regarding the investment of its funds and funds under its control. The Investment Policy addresses the methods, procedures and practices which must be exercised to ensure effective and judicious fiscal management of the City of Mesquite funds.

III. SCOPE

This Investment Policy shall govern the investment of all financial assets of the City of Mesquite. These funds are accounted for in the City's Comprehensive Annual Financial Report (CAFR) and include:

- General Fund
- Special Revenue Funds
- Capital Projects Funds
- Enterprise Funds
- Trust and Agency Funds, to the extent not required by law or existing contract to be kept segregated and managed separately
- Debt Service Funds, including reserves and sinking funds, to the extent not required by law or existing contract to be kept segregated and managed separately
- Any new fund created by the City, unless specifically exempted from this Policy by the City Council or by law.

This Investment Policy shall apply to all transactions involving the financial assets and related activity for all the foregoing funds. However, this policy does not apply to the assets administered for the benefit of the City by outside agencies under deferred compensation programs.

IV. INVESTMENT OBJECTIVES

The City of Mesquite shall manage and invest its cash with four objectives, listed in order of priority: **safety, liquidity, yield, and public trust**. The safety of the principal invested always remains the primary objective. All investments shall be designed and managed in a manner responsive to the public trust and consistent with state and local law.

The City shall maintain a comprehensive cash management program which includes collection of accounts receivable, vendor payments in accordance with invoice terms, and prudent investment of available cash. Cash management is defined as the process of managing monies in order to insure maximum cash availability and maximum yield on short-term investment of pooled idle cash.

<u>Safety</u>

The primary objective of the City's investment activity is the preservation of capital in the overall portfolio. Each investment transaction shall be conducted in a manner to avoid capital losses, whether they be from securities defaults or erosion of market value. The risk of loss shall be controlled by investing only in authorized securities as defined by this Policy, by qualifying the financial institutions with whom the City will transact, and by portfolio diversification.

<u>Liquidity</u>

The City's investment portfolio shall be structured to maintain sufficient liquidity to enable the City to meet all operating requirements which might be reasonably anticipated. This shall be achieved by matching investment maturities with forecasted cash flow requirements and by investing in securities with active secondary markets.

Yield

The City's investment portfolio shall be designed to optimize a market average rate of return on investments consistent with risk constraints, prudent investment policies and cash flow requirements of the portfolio.

Public Trust

All participants in the City's investment process shall seek to act responsibly as custodians of the public trust. Investment officials shall avoid any transaction which might impair public confidence in the City's ability to govern effectively.

V. RESPONSIBILITY AND CONTROL

Delegation of Authority

Article IV, Section 26 of the Mesquite City Charter designates that the City Finance Director shall serve as City Treasurer and perform any duties of City Treasurer as required by the general laws of the State of Texas. The Director of Finance shall delegate the responsibility for investment decisions and activities to an Investment Officer. Through the adoption of this policy, the positions of Cash and Debt Coordinator and Accounting Manager shall be designated as investment officers who are responsible for the investment of the City's funds. No person may engage in an investment transaction or the management of funds except as provided under the terms of this Investment Policy as approved by the City Council. The investment authority granted to the investing officers is effective until rescinded by the governing body.

Training Requirement

The investment officers shall attend at least one training session relating to their investing responsibilities within 12 months after assuming duties. Such training shall include education in investment controls, security risks, strategy risks, market risks, and compliance with the Texas State Public Fund Investment Act.

Internal Controls

The Director of Finance is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the entity are protected from loss, theft, or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

Accordingly, the Director of Finance shall establish a process for annual independent review by an external auditor to assure compliance with policies and procedures. The internal controls shall address the following points.

- Control of collusion.
- Separation of transactions authority from accounting and record keeping.
- Custodial safekeeping.
- Avoidance of physical delivery securities.
- Clear delegation of authority to subordinate staff members.
- Written confirmation for telephone (voice) transactions for investments and wire transfers.
- Development of a wire transfer agreement with the depository bank or third party custodian.

Prudence

The standard of prudence to be applied by the investment officer shall be the "prudent investor " rule which states: "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." In determining whether an investment officer has exercised prudence with respect to an investment decision, the determination shall be made taking into consideration:

- The investment of all funds, or funds under the City's control, over which the officer had responsibility rather than a consideration as to the prudence of a single investment.
- Whether the investment decision was consistent with the written investment policy of the City.

Indemnification

The investment officer, 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 these deviations are reported immediately and the appropriate action is taken to control adverse developments.

Ethics and Conflicts of Interest

City staff involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair the ability to make impartial investment decisions. City staff shall disclose to the City Manager any material financial interests in financial institutions that conduct business with the City and they shall further disclose positions that could be related to the performance of the City's portfolio. City staff shall subordinate their personal financial transactions to those of the City, particularly with regard to timing of purchases and sales.

An investment officer of the City who has a personal business relationship with an organization seeking to sell an investment to the City shall file a statement disclosing that personal business interest. An investment officer who is related within the second degree by affinity or consanguinity to an individual seeking to sell an investment to the City shall file a statement disclosing that relationship. A statement required under this subsection must be filed with the Texas Ethics Commission and the governing body of the entity.

VI. INVESTMENT PORTFOLIO

Portfolio Management

The City currently has a "buy and hold" portfolio strategy. Maturity dates are matched with cash flow requirements and investments are purchased to be held until maturity. However, securities may be sold before they mature if market conditions present an opportunity for the City to benefit from the trade.

Investments

Assets of the City of Mesquite may be invested in the fo lowing instruments; provided, however, that at no time shall assets of the City be invested in any instrument or security not authorized for investment under the Act, as the Act may from time to time be amended.

I. **Authorized**

1. Obligations of the United States of America, its agencies and instrumentalities.

2. Certificates of Deposit of state and national banks domiciled in Texas, a savings and loan association domiciled in this state, or a state or federal credit

union domiciled in this state that is guaranteed or insured by the Federal Deposit Insurance or its successor or secured by obligations in a manner and amount provided by law for deposits of the investing entity.

3. Fully collateralized direct repurchase agreements with a defined termination date secured by obligations of the United States or its agencies and instrumentalities pledged 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. Repurchase agreements must be purchased through a primary government securities dealer, as defined by the Federal Reserve, or a bank domiciled in Texas. A Master Repurchase Agreement must be signed by the bank/dealer prior to investment in a repurchase agreement. All repurchase agreement transactions will be on a delivery vs. payment basis. Securities received for repurchase agreements must have a market value greater than or equal to 102 percent at the time funds are disbursed.

4. Money Market Mutual funds that are 1) regulated by the SEC, 2)have a dollar weighted average stated maturity of 90 days or less, and 3)maintain a net asset value of $1 for each share.

5. Government investment pools which 1)meet the requirements of Article 4413(32c), Section 49d) of the Texas Revised Civil Statutes ("Interlocal Cooperation Act"), 2) are rated no lower than AAA or an equivalent rating by at least one nationally recognized rating service and 3) are authorized by resolution or ordinance by City Council.

II. <u>Not Authorized</u>

Under no circumstances shall investments be made in interest-only or principal-only strips of obligations with underlying mortgage-backed security collateral, or in collateralized mortgage obligations with an inverse floating interest rate or a maturity date of over 10 years. Neither shall investments be made in obligations that are secured by these prohibited investments.

<u>Maximum Maturities</u>

The longer the maturity of investments, the greater their price volatility. Therefore, it is the City's policy to concentrate its investment portfolio in shorter-term securities in order to limit principal risk caused by changes in interest rates.

The City attempts to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the City will not directly invest in securities maturity more than three (3) years from the date of purchase; however, the above described obligations, certificates, or agreements may be collateralized using longer dated investments.

Because no secondary market exists for repurchase agreements, the maximum maturity shall be 120 days.

Reserve funds may be invested in securities not to exceed five (5) years if the maturity of such investments are made to coincide as nearly as possible with the expected use of the funds.

The composite portfolio will have a weighted average maturity of one (1) year or less. This dollar weighted average maturity will be calculated using the stated final maturity dates of each security.

Risk and Diversification

The City of Mesquite 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 guidelines:

1. Risk of issuer default is controlled by limited investments to those instruments allowed by the Act, which are described herein.
2. Risk of market price changes shall be controlled by avoiding over-concentration of assets in a specific maturity sector, limitation of average maturity of operating funds investments to one year, and avoidance of over-concentration of assets in specific instruments other than U.S. Treasury Securities.
3. Risk of illiquidity due to technical complications shall be controlled by the selection of securities dealers as described herein.

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

1.	U.S. Treasury Securities	100%
2.	Agencies and Instrumentalities	50%
3.	Certificates of Deposit	50%
4.	Repurchase Agreements	50%
5.	Money Market Mutual Funds	50%
6.	Authorized Pools	50%

VII. SELECTION OF BANKS AND DEALERS

Depository

At least every five years a Depository shall be selected through the City's banking services procurement process, which shall include a formal request for proposal (RFP). The selection of a depository will be determined by competitive bid and evaluation of bids will be based on the following selection criteria:

- The ability to qualify as a depository for public funds in accordance with state and local laws.
- The ability to provide requested information or financial statements for the periods specified.
- The ability to meet all requirements in the banking RFP.
- Complete response to all required items on the bid form
- Lowest net banking service cost, consistent with the ability to provide an appropriate level of service.
- The credit worthiness and financial stability of the bank.

Securities Dealers

For brokers and dealers of government securities, the City shall select only those dealers reporting to the Market Reports Division of the Federal Reserve Board of New York, also known as the "Primary Government Security Dealers", unless a comprehensive credit and capitalization analysis reveals that other firms are adequately financed to conduct public business.

All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the following as appropriate:

- audited financial statements
- completed broker/dealer questionnaire
- certification of having read the City's investment policy signed by a registered principal of the organization
- acknowledgment that the organization has implemented reasonable procedures and controls in an effort to preclude imprudent investment activities arising out of investment transactions conducted between the City and the organization

Competitive Bids

Competitive quotes must be taken from at least three qualifying institutions for any investment transaction. Investment transactions may be done orally, but followed by electronic or written confirmation. Funds will be authorized to be released after notification that the purchased security has been received. Written confirmation shall be received from the financial institution or broker/dealer. All investments purchased will be held in safekeeping at a third party custodial institution with a safekeeping receipt being sent to the City.

Delivery vs. Payment

Treasury Bills, Notes, Bonds, Repurchase Agreements and Government Agency securities shall be purchased using the delivery vs. payment method. That is, funds shall not be wired or paid until verification has been made that the correct security was received by the Trustee. The security shall be held in the name of the City or held on behalf of the City. The Trustee'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.

VIII. SAFEKEEPING OF SECURITIES

Safekeeping Agreement

The City shall contract with a bank or banks for the safekeeping of securities either owned by the City as part of its investment portfolio or held as collateral to secure demand or time deposits.

Safekeeping

All securities owned by the City shall be held by its safekeeping agent, except the collateral for certificates of deposits in banks. The collateral for certificates of deposit in banks will be registered in the City's name in the bank's trust department or, alternatively, in a Federal Reserve Bank account in the City's name, or a third-party bank in the City's name, at the City's discretion. Original safekeeping receipts shall be obtained.

Collateralization

Consistent with the requirements of the Public Funds Collateral Act, it is the policy of the City to require full collateralization of all City investments and funds on deposit with a depository bank, other than investments which are obligations of the U.S. government and its agencies and instrumentalities. 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 the FDIC or FSLIC. At its discretion, the City may require a higher level of collateralization for certain investment securities. Securities pledged as collateral shall be held by an independent third party with whom the City has a current custodial agreement. The Director of Finance is responsible for entering into collateralization agreements with third party custodians in compliance with this Policy. The agreements are to specify the acceptable investment securities for collateral, including provisions relating to possession of the collateral, the substitution or release of investment securities, ownership of securities, and the method of valuation of securities. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to the City and retained. Collateral shall be reviewed at least weekly to assure that the market value of the pledged securities is adequate.

Collateral Defined

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

- FDIC and FSLIC insurance coverage.
- A bond, certificate of indebtedness, or Treasury Note 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.
- Obligations, the principal and interest on which, are unconditionally guaranteed or insured by the State of Texas.
- A bond of the State of Texas or of a county, city or other political subdivision of the State of Texas having been rated as investment grade (investment rating no less than "A" or its equivalent) by a nationally recognized rating agency with a remaining maturity of ten (10) years or less.

Subject to Audit

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

IX. PERFORMANCE

Performance Standards

The City's investment portfolio shall be designed with the objective of obtaining a rate of return through budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow requirements of the City.

Performance Benchmark

It is the policy of the City to purchase investments with maturity dates coinciding with cash flow needs. Through this strategy, the City attempts to purchase the highest yielding allowable investments available on the market at that time. Market value will be calculated on a quarterly basis on all securities owned and compared to current book value of those securities to determine portfolio performance during that period of time. The City's portfolio shall be designed with the objective of regularly meeting or exceeding the average rate of return on U.S. Treasury Bills at a maturity level comparable to the City's weighted average maturity in days.

X. REPORTING

Quarterly Reporting

The Director of Finance shall submit a signed quarterly investment report that summarizes current market conditions, economic developments and anticipated investment conditions. The report shall summarize investment strategies employed in the most recent quarter and describe the portfolio in terms of investment securities, maturities, and shall explain the total investment return for the quarter.

The quarterly investment report shall include a summary of the status of the current investment portfolio and transactions made over the last quarter. This summary will be prepared in a manner which will allow the City to ascertain whether investment activities during the reporting period have conformed to the Investment Policy. The report will be provided to the City Manager and City Council. The report will include the following:

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

XI. INVESTMENT POLICY ADOPTION

The City of Mesquite investment policy shall be adopted by resolution of the City Council. It is the City's intent to comply with state laws and regulations. The City's investments policies shall be subject to revisions to stay current with changing laws, regulations, and needs of the City. The policy shall be reviewed annually by the City Council and any changes or modifications must be approved by the City Council.

GLOSSARY OF COMMON TREASURY TERMINOLOGY

Agencies: Federal agency securities.

Asked: The price at which securities are offered.

Bid: 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 which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

Comprehensive Annual Financial Report(CAFR): The official annual report for the City of Mesquite. It includes 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 provision, 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 versus 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 the 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 $100,000 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 to 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 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 don at those quotes.

Local Government Investment Pool(LGIP): The aggregate of all funds from political subdivisions that are placed 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 and 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 it 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 the 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 com compensate him for this. Dealers us 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 n 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 ration 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.