



**CITY OF GLENDALE, CALIFORNIA
REPORT TO THE CITY COUNCIL**

AGENDA ITEM

Report: City of Glendale Investment Policy

1. Resolution adopting the City Investment Policy for Fiscal Year 2020-2021

COUNCIL ACTION

Item Type: Action Item

Approved for September 22, 2020 **calendar**

ADMINISTRATIVE ACTION

Submitted by:

Rafi Manoukian, City Treasurer

Prepared by:

Araz Khodabakhshi, Treasury and Investment Services Operations Specialist

Reviewed by:

Guia Murray, Assistant City Treasurer

Michele Flynn, Director of Finance

Roubik R. Golanian, P.E., Assistant City Manager

Michael J. Garcia, City Attorney

Approved by:

Yasmin K. Beers, City Manager

RECOMMENDATION

The City Treasurer's Office recommends that City Council review and adopt the City Investment Policy for Fiscal Year 2020-2021. No recommended changes.

BACKGROUND/ANALYSIS

Annually, it is in the best interest of the City for the City Council to review, revise and readopt the City's Investment Policy. The Treasurer of a local agency is required to annually render to the legislative body a statement of investment policy, which the legislative body shall consider at a public meeting. The City's Investment Policy was last reviewed by the City Council in September 2019.

FISCAL IMPACT

No fiscal impact.

ALTERNATIVES

Alternative 1: Council adopts current Investment Policy. Alternative 2: Council recommends changes to Investment Policy. Alternative 3: The City Council may consider any other alternative not proposed by staff.

CAMPAIGN DISCLOSURE

EXHIBITS

1. Investment Policy of the City of Glendale

RESOLUTION NO. _____

**RESOLUTION OF THE COUNCIL OF THE CITY OF GLENDALE, CALIFORNIA
APPROVING THE INVESTMENT POLICY FOR THE CITY TREASURER
INVESTMENT OF CITY FUNDS**

WHEREAS, the Council of the City of Glendale has previously adopted an Investment Policy for the City Treasurer in the Investment of City Funds; and

WHEREAS, it is in the best interest of the City from time to time to review, revise and if necessary, readopt the Investment Policy, and

WHEREAS, both the City Treasurer and Investment Policy Advisory Committee have determined that a revision to the policy is appropriate to better diversify the Investment Policy of the City of Glendale.

NOW THEREFORE, BE IT RESOLVED BY THE COUNCIL OF THE CITY OF GLENDALE, CALIFORNIA:

SECTION 1. That the Investment Policy of the City of Glendale, as revised dated September 22, 2020, is hereby approved and adopted as the Investment Policy of the City of Glendale.

SECTION 2. The City Treasurer shall retain a copy of the Investment Policy in the office of the City Treasurer.

Adopted this 22th day of September, 2020.

Mayor

ATTEST:

City Clerk

STATE OF CALIFORNIA)
COUNTY OF LOS ANGELES) SS
CITY OF GLENDALE)

I, ARAM ADJEMIAN, City Clerk of the City of Glendale, do hereby certify that the foregoing Resolution No. _____ was adopted by the Council of the City of Glendale, California, at a regular meeting held on the 22th day of September , 2020, and that same was adopted by the following vote:

Ayes:

Noes:

Absent:

City Clerk

INVESTMENT POLICY OF THE CITY OF GLENDALE, CALIFORNIA

September 2020

SECTION 1. PURPOSE

The purpose of this policy statement is to set forth the investment and operational policies for the management of the public funds of the City of Glendale, California. These policies have been adopted by, and can be changed only by, a majority vote of the City Council.

These policies are designed to ensure the prudent management of public funds, the availability of operating and capital funds when needed, and an investment return competitive with those of comparable funds and financial market indexes.

A copy of this statement will be provided to all investment dealers and investment managers doing business with the City of Glendale, and will be provided to other interested parties on request. Receipt of this policy, including confirmation that it has been reviewed by persons dealing directly with the City of Glendale's account will be received prior to any organization providing investment services to the City of Glendale.

SECTION 2. STATUTORY AUTHORITY

City of Glendale Charter (Article XI, Section 2) provides that "The City Treasurer shall receive and safely keep and pay out as directed in this Charter all moneys belonging to the city and all moneys received by or coming in to the hands of any officer, board, department or employee of the city and shall keep an exact account of receipts and disbursement." California State Government Codes Section 53607 and 53608 provide the authority for the legislative body of the local agency to invest the funds of the local agency or to delegate the full responsibility to the treasurer of the local agency. As per Resolution No. 16,949, dated 14 September 1971, the elected City Treasurer of the City of Glendale is authorized to invest and reinvest City funds and to sell or exchange securities so purchased.

SECTION 3. ORGANIZATION

The organization of the investment functions of the City of Glendale shall consist of the City Council, the City Treasurer and an Investment Policy Advisory Committee. The responsibilities of these groups are as follows:

1. The City Council

This group is the elected body responsible for the administration and investment of the investment assets of the City of Glendale. To assist them in discharging their responsibilities, the City Council shall supervise the actions of the elected City Treasurer as chair of the Investment Policy Advisory Committee.

SECTION 3. ORGANIZATION (Continued)

2. The Elected City Treasurer

The elected City Treasurer is the investment officer of the City of Glendale and is granted full authority and responsibility by the City Council in the purchase, sale, assignment, exchange and transfer of securities and for the safe custody of security holdings, subject to Council policies, rules, regulations and directives consistent with regulatory and statutory limitations. In the absence of the City Treasurer, the Assistant City Treasurer shall perform the duties of investment as directed by the City Treasurer. The City Charter provides for the replacement of the elected City Treasurer in case of death or permanent disability.

3. The Investment Policy Advisory Committee

The Investment Policy Advisory Committee is presently composed of seven (7) members: The elected City Treasurer as chairperson, the City Manager or his/her designee, the Director of Finance, the Internal Auditor, a Department Head designated by the City Manager, a City Attorney representative, and a citizen representative. The committee reviews the monthly reports presented to the City Council and confers with the City Treasurer if there are any concerns that need to be addressed. (See Committee Charter for further information concerning the duties of the committee.)

SECTION 4. INVESTMENT PHILOSOPHY

Except where specifically directed by the State Constitution, statutes, or regulations, the general investment policies of the City of Glendale will be guided by the “prudent investor” rule. Those with investment responsibility for public funds are fiduciaries and, as such, “shall exercise the judgment and care under the circumstances then prevailing that persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not in regard to speculation but in regard to the permanent disposition of their funds,” considering probable safety of their capital first as well as probable income. Public funds for the City of Glendale will be pooled for maximum investment objective. This policy is applicable, but not limited to all funds listed below:

- General Fund Monies
- Electric Funds Monies (not Bonds)
- Water Fund Monies (not Bonds)
- Capital Outlay Fund
- Sewer Funds
- Refuse Fund

Redevelopment Bonds, Bond reserve funds, deferred compensation and retirement funds are directed by the Director of Finance via Trust Agents.

SECTION 5. INVESTMENT OBJECTIVES

The investment objective is as follows:

- a. *Objective.* The primary investment objectives of this portfolio are preservation of principal and liquidity; income is a SECONDARY objective.
- b. *Risk tolerance.* Because most of the principal of the fund will be paid out over the course of the fiscal year, volatility of principal is not permitted. Financial risk is not acceptable, and because of the short investment time horizon of the funds, exposure to interest rate risk and purchasing power risk will be minimal.
- c. *Rate of return.* The annual time-weighted rate of return of this portfolio should at least meet the annual total return on three-month Treasury bills.

SECTION 6. INVESTMENT POLICY GUIDELINES

Prohibited Investments include:

- a. Loans with an agreement for the collateral to be repurchased by the borrower (repurchase agreements from the perspective of the public body).
- b. Futures and options for the sole purpose of hedging interest rate risk.
- c. Purchases on margin or short sales.
- d. Derivative securities that are, in effect, a leveraged bet on future movements of interest rates or some price index. Collateralized Mortgage Obligations (CMO's), because of their complexity and prepayment rate uncertainty.
- e. Lending securities with an agreement to buy them back after a stated period of time (reverse repurchase agreements from the perspective of the public body).

SECTION 7. EXECUTIONS

The responsibility for the execution of security transactions shall rest with the elected City Treasurer and/or his/her designated assistant/staff. The selection of the broker-dealer/securities trader shall be on a best execution basis as determined by the City Treasurer.

Security orders shall be placed on the basis of accepted investment practices. A periodic review of the capital adequacy of institutions shall be undertaken by the elected City Treasurer.

Receipts for the confirmation of trades of authorized securities will include information on trade date, par value, maturity, interest rate, price, yield, settlement date, description of securities purchased, agency's name, amount due, and third-party custodial information. Confirmations will be received within three business days after the trade.

SECTION 8. PERSONAL CONDUCT

The City Council of the City of Glendale is acutely aware of the responsibilities that the staff has in administering the investment assets of the City of Glendale. Therefore, the integrity of the staff and all others involved in making investment decisions must be unquestioned.

Members of the City Council, the City Manager, Department Heads, members of the investment staff, members of the Investment policy Committee and other city committees or commissions may not have a direct or indirect interest in or gains or profits of any investment made by the City of Glendale and may not receive any pay or emolument for services other than as designated compensation and authorized expenses.

City of Glendale's assets shall be governed in their personal investment activities by the codes of conduct established by the applicable state statutes, the National Association of Securities Dealers (NASD), and the Securities and Exchange Commission (SEC), and the code of Ethics and Standards of professional conduct of the Association for Investment Management and Research.

All persons responsible for investment decisions or who are involved in the management of the City of Glendale's assets are prohibited from accepting invitations to functions if the cost is borne by the brokers or dealers, corporations, or the system local clearing banks. Exceptions to this rule are invitations that have been extended to other members of the investment community and are made for the express purpose of presenting topics pertinent to the investment of the City of Glendale's assets.

SECTION 9. REPORTING REQUIREMENTS

A. Monthly

The City Treasurer shall submit a written monthly investment report to the City Council, the City Manager, the Investment Policy Advisory Committee, the Finance and Administrative Services, and the Internal Auditor.

Items required in that report include:

- Type of Investment
- Name of Issuer
- Date of Purchase
- Date of Maturity
- Cost of security or amount of deposit
- Par Value
- Market Value
- Book Value
- Effective Rate of Return
- Accrued Interest
- Average maturity
- All investment transactions
- Statement relating that the report adheres to the current investment policy
- Statement that there are sufficient funds to meet the next six month obligations

SECTION 9. REPORTING REQUIREMENTS (continued)

B. Quarterly

The City Treasurer shall submit a written quarterly investment report to the City Council. The detailed monthly investment report satisfies as the quarterly report. Distribution as indicated in Section 9A of this policy.

C. Annually

Annually the City Treasurer shall appear before the City Council to submit the annual investment report, which will include a review of the past year, and a general decision of strategies for the coming year.

SECTION 10. CASH AND INVESTMENT INSTRUMENTS

City active and inactive deposits may be kept in checking accounts and savings accounts at financial institutions as identified in California State Government Code Section 53648 provided that they are adequately secured with proper collateral as prescribed by Government Code Sections 53651 and 53652. Funds may be automatically swept from the above accounts into investment instruments provided those investment instruments are allowable investments as listed in this section, and limited to the percentage of investment participation prescribed for each investment instrument.

Allowable investments for the portfolio of the City of Glendale are limited by California State Government Code Sections 53600 et seq. They are further restricted by the City Treasurer's investment strategy. Percentages of Investment Participation and percentages of Maximum Participation apply at the time of purchase. Purchase transactions may not exceed \$10,000,000, nor exceed five-year maturities. Exceptions can only be approved by City Council. The investment instruments and percentage of participation permitted by this policy are:

- U.S. Treasury Securities

United States Treasury notes, bonds, bills, or certificates of indebtedness, or those for which the faith and credit of the United States are pledged for the payment of principal and interest.

Maximum Maturity: 5 Years

Investment Participation: 100%

SECTION 10. CASH AND INVESTMENT INSTRUMENTS (continued)

- Federal Agencies Securities

Obligations issued by banks for cooperatives, federal land banks, federal intermediate credit banks, federal home loan banks, the Federal Home Loan Bank Board, the Tennessee Valley Authority, or in obligations, participations, or other instruments of, or issued by, or fully guaranteed as to principal and interest by, the Federal National Mortgage Association; or in guaranteed portions of Small Business Administration notes; or in obligations, participations, or other instruments of, or issued by, a federal agency or United States government-sponsored enterprise.

Maximum Maturity: 5 Years

Investment Participation: 100%

- State of California and California Local Agencies

Registered California warrants, treasury notes or bonds of this state, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled or operated by the state or by a department, board, agency, or authority of the state.

Bonds, notes, warrants or other evidences of indebtedness of any local agency within California including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency, or by a department, board, agency, or authority of the local agency. Investments under this section must be rated "A" or better by a nationally recognized rating service.

Investment Participation: 15%

Maximum Exposure: 5% per Issuer

- Obligations of Other States

Registered treasury notes or bonds of any of the other 49 states, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or by a department, board, agency, or authority of any of the other 49 states.

Investment Participation 10%

Maximum Exposure 5% per Issuer

SECTION 10. CASH AND INVESTMENT INSTRUMENTS (continued)

- Medium Term Notes

Medium term notes, defined as all corporate and depository institution debt securities with a maximum remaining maturity of five years or less, issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States having assets in excess of \$500,000,000. Notes eligible for investment under this subsection must be rated “A+” or better by a Nationally Recognized Statistical Rating Organization (NRSRO).

If the credit rating of a security falls below the “BBB” grade, it must be sold and removed from the City Portfolio unless the City Council approves the City Treasurer’s recommendation that the security should be retained. City Treasurer will monitor and report status of such security to City Council at each Quarterly Review.

Maximum Maturity:	5 Years
Investment Participation:	30%
Maximum Exposure:	5% per Issuer

- Commercial Paper

Commercial Paper ranked A-1, P-1, F-1 by one of the major rating agencies and issued by a domestic corporation (organized and operating in the United States as a general corporation) having assets in excess of \$500,000,000 and having an “A” or better rating on its long term debentures as determined by a recognized national rating agency.

Maximum Maturity:	270 Days
Investment Participation:	25%
Credit Requirement	A-1, P-1, F-1 (Per Moody’s/ S & P/ Fitch)
Maximum Exposure:	10% per Issuer

SECTION 10. CASH AND INVESTMENT INSTRUMENTS (continued)

- Bankers' Acceptances-Domestic

Bills of exchange or time drafts drawn on and accepted by a commercial bank. Eligibility is limited to U.S. banking corporations.

Maximum Maturity:	180 Days
Investment Participation:	30%
Maximum Exposure:	10% per bank
Credit Requirement:	A-1, P-1, F-1 (Per Moody's / S&P/ Fitch)

- Time Deposits (FDIC Insured or Collateralized Certificates of Deposits)

Time deposits, non-negotiable and collateralized in accordance with the California Government Code, may be purchased through a nationally or state-chartered commercial banks, savings banks, savings and loan associations, or credit union in this state. The full amount of the principal and the interest that may be accrued during the maximum term of each certificate of deposit shall at all times be insured by the Federal Deposit Insurance Corporation or the National Credit Union Administration. The selected depository institution shall serve as a custodian for each certificate of deposit that is issued with the placement service for the local agency's account. No more than 10% of the investment portfolio may be invested in this investment instrument.

Maximum Maturity:	1 Year
Investment Participation:	10%
Maximum Exposure:	5% per Issuer

SECTION 10. CASH AND INVESTMENT INSTRUMENTS (continued)

- Negotiable Certificates of Deposit

Negotiable certificates of deposit issued by a nationally or state-chartered bank, a savings association or a federal association (as defined by Section 5102 of the Financial Code), a state or federal credit union, or by a federally-licensed or state-licensed branch of a foreign bank. Purchases of negotiable certificates of deposit shall not exceed 30 percent of the agency's money which may be invested pursuant to this section.

Maximum Maturity:	1 Year
Investment Participation:	30%
Maximum Exposure:	5% per Issuer
Credit Requirement:	A-1, P-1, F-1 (Per Moody's / S&P/ Fitch)

- Money Market Mutual Funds

California Government Code Section 53601 (l) permits public agencies to invest 20% of their portfolio in money market and money market mutual funds. . Money market funds are limited to a maximum dollar-weighted average maturity of 90 days; each investment must have a remaining maturity of thirteen months or less at time of purchase; and the fund must strive to maintain a constant net asset value of \$1.00. These restrictions are designed to protect assets from a loss in value that can result from substantial increases in interest rates.

The California Government Code Section 53601 (l) permits public agencies to invest in "shares of beneficial interest issued by diversified management companies that are money market funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940 (15 U.S.C. Sec. 80a-1, et seq.) as long as the company shall have met either of the following criteria: (A) Attained the highest ranking or the highest letter and numerical rating provided by not less than two nationally recognized statistical rating organizations or (B) Retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience investing in the securities and obligations authorized by subdivisions (a) to (k), inclusive, or subdivisions (m) to (q), inclusive, and with assets under management in excess of five hundred million dollars (\$500,000,000). The purchase price of shares of beneficial interest purchased pursuant to this subdivision shall not include commission that the companies may charge.

Investment Participation:	20 %
Maximum Exposure:	10% per Mutual Fund

SECTION 10. CASH AND INVESTMENT INSTRUMENTS (continued)

- LAIF (Local Agency Investment Fund), State of California Investment Pool

A pooled investment fund managed by the State Treasurer's Office, which operates like a money market fund for the exclusive benefit of governmental entities within California.

Investment Participation: Maximum (Set by LAIF)

- Los Angeles County Treasury Pool

A pooled investment fund managed by the Los Angeles County Treasurer's Office, which operates like a money market fund for the exclusive benefit of governmental entities within Los Angeles County.

Investment Participation: 10%

SECTION 11. INTERNAL CONTROLS

A system of internal controls will be maintained to assure compliance with Federal and State regulations, city council direction, and prudent cash management procedures.

1. **Investment Policy Advisory Committee Review.** Quarterly review of procedure and adherence to this Investment Policy will be performed.
2. **Separation of Duties.** Every care will be taken to ensure that investment duties will be conducted according to this policy. Reporting of the investment transactions will be conducted by the Assistant City Treasurer within the investment tracing system. All transactions, interest received, etc. will be submitted to the Director of Finance. Additionally, the internal Audit Department will receive monthly reports for their review.
3. **Annual Audit.** There will be an annual audit conducted by an independent outside auditing firm to ensure compliance with all regulations and the investment policy of the city.

SECTION 12. AUTHORIZED FINANCIAL INSTITUTIONS AND DEALERS

The elected City Treasurer shall maintain a list of qualified institutions and dealers who provide investment services and are located in the State of California. Qualified institutions and dealers are defined as "primary" dealers or regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule). No public deposit shall be made except in a qualified public depository as established by California law.

All financial institutions and dealers seeking to become a provider of investment services with the City of Glendale will be considered. The financial institution(s) and/or dealer(s) will provide audited financial statements, proof of National Association of Security Dealers certification, trading resolution, proof of state of California registration, completed authorization to trade agreement and signed statement of having read and agreeing to comply with the City of Glendale's investment policy **BEFORE THEY WILL BE CONSIDERED**. The City Treasurer will accept and review proposals from financial institutions and/or dealers on an ongoing basis.

SECTION 13. RISK TOLERANCE

The City of Glendale recognizes that investment risks can result from issuer defaults, market price changes or various technical complications leading to temporary illiquidity. Portfolio diversification is employed as a way to control risk. The City Treasurer is expected to display prudence in the selection of securities as a way to minimize default risk. No individual investment transaction shall be undertaken which jeopardizes the total capital position of the overall portfolio. The Treasurer shall periodically establish guidelines and strategies to control risks of default, market price changes and illiquidity.

The City Treasurer (as investment officer), acting in accordance with written policies and the "prudent investor" standard and exercising due diligence, shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided that substantial deviations from expectations are reported by the Treasurer to the City Council within three days of discovery. Mutually agreeable remedial action will be taken by the Treasurer and reported at the next Investment Policy Advisory Committee meeting.

It is explicitly recognized that in a diversified portfolio, occasional measured losses may occur, and must be considered within the context of overall investment return.

SECTION 14. SAFEKEEPING

Securities purchased from broker/dealers should be held in a third party custodian/safekeeping account. Said securities should be held in a manner that establishes the governmental entity's right of ownership.

SECTION 15. STATEMENT OF INVESTMENT POLICY

The investment policy shall be reviewed annually by the Investment Policy Advisory Committee, and submitted to the City Council on an annual basis with or without changes.

APPENDIX A GLOSSARY

AGENCIES: Federal agency securities

BANKERS' ACCEPTANCES: A draft or Bill of Exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

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.

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.

CERTIFICATE OF DEPOSIT (CD): A time deposit with a specific maturity evidenced by a certificate. Large denomination CD's are typically negotiable.

COUPON: The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value. 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.

DELIVERY VERSUS PAYMENT: There are two methods of delivery of securities: delivery versus payment and delivery versus receipts (also called free). Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipts is delivery of securities with an exchange of signed receipt for the securities.

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

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

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC): A federal agency that insures bank deposits, currently up to \$250,000 per depositor.

APPENDIX A
GLOSSARY (continued)

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 & 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.

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION: (GNMA or Ginnie Mae): Securities guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loans 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-throughs is often used to describe Ginnie Maes.

LIQUIDITY: A liquid asset is one that can be converted easily and rapidly into cash without 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 AGENCY INVESTMENT FUND (LAIF): Funds from local governmental units may be remitted to the California State Treasurer for deposit in this special fund for the purpose of investment.

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

MASTER REPURCHASE AGREEMENT: A written contract covering all future transactions between the parties to repurchase – reverse repurchase agreements that establish each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller-borrower.

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.

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.

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

APPENDIX A
GLOSSARY (continued)

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 Federal Reserve Bank 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 banks’ vaults for protection.

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

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

SECURITIES & EXCHANGE COMMISSION: Agency created by Congress to protect investors in securities transactions by administering securities legislation.

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

TREASURY NOTES: Intermediate term coupon bearing U.S. Treasury securities having initial maturities of 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 for 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.