



Town of Haymarket  
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Haymarket, VA 20169  
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## Memorandum

**To:** Honorable Mayor and Town Council  
**From:** Roberto Gonzalez, Town Treasurer  
**Date:** February 02, 2026  
**Re:** Investment Policy

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The Town of Haymarket has, over the past nine years, built a conservative and fiscally responsible financial foundation. These practices have proven effective and continue to support the financial needs and expectations of our residents, particularly in the post-COVID environment. The **Investment Policy** presented for discussion and approval serves to formalize the standards and guidelines the Town should rely upon to ensure continued financial stability and growth.

Virginia law outlines what types of investments local governments are allowed to make. Under the **Investment of Public Funds Act (Va. Code § 2.2-4500 et seq.)**, towns may invest public funds in secure options such as U.S. Treasury obligations, Virginia state obligations, high-quality commercial paper, repurchase agreements, bank deposits, and other approved securities. These laws establish the framework the Town would follow to ensure public funds are managed safely, prudently, and with adequate liquidity.

This Investment Policy is intended to align the Town's internal practices with the "standard of care" expected of public fund managers under **Va. Code § 2.2-4514**, which establishes the fiduciary responsibility and prudence required of treasurers and financial officers when investing public funds. The policy is therefore designed to guide the Treasurer/Finance Director by clearly outlining the parameters, permissible investment types, and oversight mechanisms expected by the Town Council.

The Town Treasurer drafted the Investment Policies in September and presented them to the financial liaisons in October 2025 for discussion. Since then, the liaisons have reviewed the drafts and provided input. The proposed policy reflects best practices used by many local governments across Virginia. After examining thirteen (13) state-approved investment policies with the Finance liaisons, the Treasurer selected six (6) core policies that best fit Haymarket's financial priorities and responsibilities. While these practices are already being followed in day-to-day operations, they have not yet been formally approved by the Council.

Adopting this Investment Policy will provide clear guidance today and create a stable framework for future Councils and staff, promoting consistent and responsible financial management. To keep the policy current with changes made by the General Assembly, the Town should review it every two

years and update it sooner if the Commonwealth revises the Investment of Public Funds Act or other relevant sections of Title 2.2. These practices help ensure the Town stays compliant with state law and follows sound financial management standards.



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**Investment Policy**

This Investment Policy has been established by the Treasurer of Town of Haymarket and adopted by the Haymarket Town Council (“Town”) to ensure effective management of the day-to-day investment activity for the Town, and is designed to increase non-tax revenues by investing funds when not needed for current obligations.. This Policy is adopted pursuant to the Code of Virginia, including but not limited to the Investment of Public Funds Act (§ 2.2-4500 et seq. ) and the Virginia Security for Public Deposits Act (§ 2.2-4400 et seq. ). The primary objectives of the Town's investment activities shall be safety, liquidity, yield, and compliance with the applicable law and regulations.

The Treasurer of Town of Haymarket is the appointed official charged with receiving, collecting, safeguarding and disbursing Town funds and with general custody of Town funds from all sources. The general custody of all funds requires the investment of those funds within the confines of the laws of the Commonwealth and a comprehensive Investment Policy developed and maintained by the Treasurer and reviewed and adopted by the Town Council.

Questions or recommendations regarding these policies should be directed to the Treasurer who will consider the recommendation and implement any changes which he or she deems to be in the best interest of the Town.

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Roberto C. Gonzalez  
Town Treasurer

Date: \_\_\_\_\_

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## **Purpose and Scope**

The purpose of this Investment Policy is to establish guidelines for the safeguarding and efficient management of Town funds and for the purchase and sale of investment instruments. The goal is to minimize risk and to ensure the availability of cash to meet the Town's expenditures, while generating revenue from the use of funds, which might otherwise remain idle. Once adopted by the Council, this Investment Policy applies to all financial assets managed by the Treasurer.

Unless otherwise noted, all citations in this policy refer to the Code of Virginia Sections §2.2-4400 et seq., §2.2-4500 et seq., and §2.2-4700 et seq., as amended.

## **Objectives**

1. All investments shall be in compliance with the Code of Virginia Sections §2.2-4400 et seq. and §2.2-4500 et seq.
2. The cash management and investment activities of the Town shall be conducted in accordance with the prudent investor standard and generally accepted public-sector financial management practices used by local governments of similar size and financial resources.
3. The primary objectives of the Treasurer's investment activities, in priority order, are: safety, liquidity, yield, and risk minimization.
  - Safety of Principal - Safety of principal is the foremost objective of the investment of public funds. Investments shall be undertaken in a manner that seeks to ensure the preservation of the principal amount in the overall portfolio.
  - Maintenance of Liquidity - The investment portfolio will remain sufficiently liquid to enable the Treasurer to meet all operating requirements of the Town, which might be reasonably anticipated.
  - Maximizing Return - The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles. This objective shall take into account constraints as to acceptable risk and the characteristics of the Town's cash flow.
  - Minimization of Risk – Investment activities shall be conducted in a manner that seeks to minimize credit, market, and interest rate risks. Diversification of investments and adherence to statutory and policy guidelines will be employed to reduce exposure to potential losses.

## **Role of the Treasurer**

The Town Treasurer, an appointed official, is responsible for receiving, safeguarding, and disbursing Town funds. The Treasurer also serves as the Town's investment; however, specific investment decisions shall be made pursuant to the authority that is expressly granted to the Treasurer by the Town Council by way of a vote, a resolution or an ordinance. Generally, all available cash will be invested in a common portfolio. However, funds set aside for specific purposes or not expected to be spent soon may be placed in separate portfolios, subject to discussion with the Finance Liaisons and the advice and consent of the Haymarket Town Council.

The Treasurer must file an annual electronic Statement of Economic Interest with the Virginia Conflict of Interest and Ethics Advisory Council by February 1 (Code of Virginia §2.2-3116). The Treasurer may also require any employee who handles Town investments to file a similar statement. Employees involved in investing Town funds must not engage in personal business activities that could create a conflict of interest with their investment responsibilities.

## **Standard of Prudence**

The standard of prudence to be used by investment officials shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and this Investment Policy and exercising due diligence shall be relieved of personal liability for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments. The "prudent person" standard states that:

*"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."*

If the Treasurer and anyone they authorize follow this policy, written procedures, and act carefully, they won't be personally responsible for losses on individual investments—unless they were negligent or acted improperly. This protection is provided by Virginia law (Code of Virginia §2.2-4516).

In accordance with §2.2-4410 of the Code of Virginia, the Treasurer is not personally liable for any loss of public funds caused by the default or failure of a qualified depository, provided there is no negligence or wrongdoing on the part of the Treasurer or their staff.

## **Ethics and Conflict of Interest**

The Treasurer and other employees involved in the investment process shall comply with the Code of Virginia Section § 2.2-3100 et seq. and the State and Local Government Conflict of Interests Act. Employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Employees shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the Town.

## **Internal Controls**

The Treasurer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the Town are protected from loss, theft or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met.

The Treasurer will, when practical, review potential investment strategies and options with the Town's designated Finance Liaisons to provide transparency and receive input on market conditions and cash flow priorities.

However, in accordance with Virginia Code § 2.2-4500, et seq. and other applicable law, the Treasurer retains sole authority and fiduciary responsibility for all final investment decisions made on behalf of the Town.

The internal control structure shall address the following points:

- Control of collusion
- Separation of transaction authority from accounting and recordkeeping
- Custodial safekeeping
- Avoidance of physical delivery securities
- Clear delegation of authority to subordinate staff members
- Written confirmation of transactions for investments and wire transfers
- Development of a wire transfer agreement with the lead bank and third-party custodian.
- Quarterly reports on the Town's investments shall be included as part of the Treasurer's regular work session agenda.

## **Authorized Investments**

The Treasurer may invest in the following securities that are in compliance with the Code of Virginia as authorized by the Town. The Treasurer, however, may impose additional requirements and restrictions in order to ensure that the Town's goals are met. In selecting investments, the Treasurer shall adhere to the following guiding principles:

- Safety First: Prioritize U.S. government-backed and insured instruments to protect public funds.
- Liquidity: Maintain access to funds for operational needs and unforeseen expenses.
- Simplicity: Avoid complex instruments requiring daily collateral monitoring or extensive credit analysis.

Permitted Investments for the Investment Portfolio include:

1. **U.S. Treasury Obligations.** Bills, notes and any other obligation or security issued by or backed by the full faith and credit of the United States Treasury as described by Code of Virginia §2.2-4501.

*Examples:*

- *U.S. Treasury Bills (short-term)*
- *U.S. Treasury Notes (1-5 years)*

2. **Municipal Obligations.** Bonds, notes and other general obligations of a state or municipal government, upon which there is no default, and which otherwise meets the requirements of Code of Virginia §2.2-4501.

*Examples:*

- *Virginia General Obligation Bonds*
- *Bonds issued by neighboring counties or school districts*

3. **Federal Agency/ Government Sponsored Enterprise Obligations.** Bonds, notes and other obligations of the United States, and securities issued by any federal government agency or instrumentality or government sponsored enterprise, as described by Code of Virginia §2.2-4501.

*Examples:*

- *Federal Home Loan Bank (FHLB) Notes*
- *Fannie Mae or Freddie Mac Agency Bonds*

4. **Pools.** Pooled investment programs provided that the underlying investments by such funds are restricted to investments otherwise permitted by the Code of Virginia for political sub-divisions, as described by Code of Virginia §2.2-4513.1. The Town can invest in two (2) different types of Pools:
  - a. **Principal Stability Pools** that operate in compliance with the Government Accounting Standards Board's Statement 79 ("GASB 79"), which maintain a weighted average maturity of less than 60 days and whose primary objective is to maintain a stable net asset value; and
  - b. **Short-Term Bond Pools** that may have a longer average maturity than Principal Stability Pools and a fluctuating net asset value. Bond Pools are designed to generate a higher rate of return than Principal Stability Pools.

*Examples:*

- *Virginia Investment Pool (VIP) Liquidity Pool*
- *Local Government Investment Pool (LGIP)*

5. **Money Market Mutual Funds (Open-Ended Investment Funds).** Shares in open-end, no-load investment funds meeting the requirements of Code of Virginia §2.2-4508 provided that such funds are registered under the Federal Investment Company Act of 1940. The mutual fund must comply with the diversification, quality and maturity requirements of Rule 2(a)-7, or any successor rule, of the United States Securities and Exchange Commission, provided the investments by such funds are restricted to investments otherwise permitted by the Code of Virginia §2.2-4500 et seq.

*Examples:*

- *Federated Government Money Market Fund*

6. **Bank Deposits and Non-Negotiable Certificates of Deposit.** Demand deposits, time deposits, and other deposits that comply with all aspects of the Security for Public Deposits Act and with Code of Virginia §2.2-4518.

*Examples:*

- *Insured checking or savings accounts at qualified banks*
- *Non-negotiable CDs secured under Virginia's Security for Public Deposits Act*

## **Investment Parameters**

### **Mitigating Credit Risk in the Portfolio**

Credit risk is the risk that a security or a portfolio will lose some or all of its value due to a real or perceived change in the ability of the issuer to repay its debt. It is the policy of the Town to diversify its investment portfolios to minimize risk of loss resulting from the over-concentration of assets in a specific maturity, issuer, or class of securities.

### **Mitigating Market Risk in the Portfolio**

Market risk is the risk that the portfolio value will fluctuate due to changes in the general level of interest rates. The Town recognizes that, over time, longer-term/core portfolios have the potential to achieve higher returns. On the other hand, longer-term portfolios have higher volatility of return. The Town shall mitigate market risk by providing adequate liquidity for short-term cash needs, and by making longer-term investments only with funds that are not needed for current and near-term cash flow purposes. The Town further recognizes that certain types of securities, including variable rate securities, securities with principal pay downs prior to maturity, and securities with embedded options, will affect the market risk profile of the portfolio differently in different interest rate environments.

### **Maximum Maturity**

Maintenance of adequate liquidity to meet the cash flow needs is essential. Accordingly, to the extent possible, the investment portfolio will be structured in a manner that ensures sufficient cash is available to meet anticipated liquidity needs. Whenever practical, selection of investment maturities will be consistent with the Town's known cash requirements in order to minimize the forced sale of securities prior to maturity. Investments are limited to a maximum maturity of five (5) years from the transaction settlement date (with the exception of Agency Mortgage-Backed Securities ("MBS") which must have a weighted average life ("WAL") of no more than five (5) years).

To manage the volatility of the Investment Portfolio, the Treasurer shall determine an appropriate duration or weighted average maturity ("WAM") target for each component of the Investment Portfolio. At no time shall the duration or WAM of any component of the Investment Portfolio exceed three (3) years.

Debt service reserve funds with longer term investment horizons may be invested in securities exceeding five (5) years if the maturity of such investment is made to coincide as nearly as practical with the expected use of funds.

## **Diversification Parameters**

The following diversification parameters have been established and will be reviewed periodically by the Treasurer for all funds. The Treasurer may choose to implement limitations that are more restrictive than these parameters if he or she deems it prudent to

do so. The diversification parameters will be applied across all of the Town's investments governed by this policy, not at the individual fund level. The investment portfolios shall be diversified by security type and institution. The maximum percentage of the portfolio permitted in each eligible security is as follows:

<b>Permitted Investment</b>	<b>Sector Limit</b>	<b>Issuer Limit</b>	<b>Ratings Requirement<sup>1,2</sup></b>	<b>Max Maturity<sup>3</sup></b>
U.S. Treasury Obligations	100%	100%	N/A	5 Years
Municipal Obligations	10%	5%	AA (S&P) and Aa (Moody's)	3 Years
Federal Agency/ GSE Obligations	100%	35%	"AA" or equivalent to U.S. Federal Government	5 Years (5 year max WAL for MBS)
Principle Stability Pools	100%	100%	AAAm or equivalent by an NRSRO	N/A
Short-Term Bond Pools	100%	100%	AAf or equivalent by an NRSRO	Maximum duration of 3 years
Money Market Mutual Funds	100%	50%	AAAm or equivalent by an NRSRO	N/A
Bank Deposits and Non-Negotiable Certificates of Deposit	100%	100%	Collateralized in accordance with the Security for Public Deposits Act	N/A

1. Ratings by NRSROs as designated by the SEC
2. At time of purchase
3. From transaction settlement date

The Sector Limit and Issuer Limit shall be applied to the Town's total cash and investments asset value at the date of acquisition.

When investing in a Pool, the Town shall limit its investment to ten (10) percent of the total assets of the Pool.

### **Security Downgrades**

In the event that any security held in the Investment Portfolio is downgraded below the ratings required by this Policy, the Treasurer shall be notified immediately in order to determine any actions to be taken in relation to the downgrade.

## **Purchase of Investments**

Generally, investment offers must be compared to real-time market data. The Treasurer may use discretion in selecting the bidders, taking into consideration an institution's reputation, past success rate, timeliness in providing bids and any other factors which the Treasurer believes to have bearing. The Treasurer, upon receiving authorization from the Town, may purchase or sell investments at his or her discretion without competition provided that the securities involved meet all the criteria for allowed investments.

In general, the highest yielding instrument offered will be the investment selected. The Treasurer may reject an investment, even if it yields the highest rate, if he or she feels it carries an element of risk which may not be reflected in the published credit rating or if it is not in the Town's interest to hold such an investment in its portfolio.

Banks and broker/dealers shall be instructed to mail trade confirmations or similar documentation to the Treasurer.

Investments shall be made with the judgment and care which persons of discretion, prudence and intelligence exercise in the management of their own affairs, not for speculation, but for investment for the protection of principal. Consideration for the safety of capital shall be paramount over the probable income to be derived. Individuals responsible for investing Town funds shall in no way benefit personally as a result of investment decisions.

The Town has established the following procedures:

1. The Treasurer or designee shall seek to obtain competitive bid information on all purchases of investment instruments purchased on the secondary market.
2. If the Town is offered a security for which there is no readily available competitive offering on the same specific issue, then the Treasurer shall document quotations for comparable or alternative securities. When purchasing original issue instrumentality securities, no competitive offerings will be required as all dealers in the selling group offer those securities as the same original issue price.
3. The purchase and sale of investments requires the authorization of the Town.

## **Investment of Bond Proceeds**

The Town intends to comply with all applicable sections of the Internal Revenue Code as it relates to Arbitrage Rebate and the investment of bond proceeds. All investment records will be maintained to ensure compliance with all regulations. All bond proceeds will be invested in accordance with applicable bond resolutions with the authorization of the Town.

## **Collateralization of Bank Deposits**

All bank deposits of the Town shall be considered Public Deposits as defined by Code of Virginia Security for Public Deposits Act (Code of Virginia Section 2.2-4400 et seq.) and all deposits must be made with Qualified Public Depositories.

## **Engagement of Investment Managers**

The Treasurer may engage one (1) or more qualified firms to provide investment management services for the Town. All investment management firms who desire to provide investment services to the Town will be provided with current copies of the Investment Policy. Before an organization can provide investment services to the Town, it must confirm in writing that it has received and reviewed the Investment Policy and enter into a written agreement with the Town.

Only firms meeting the following requirements will be eligible to serve as investment manager for the Town:

1. Registered with the Securities and Exchange Commission under the Investment Advisers Act of 1940;
2. Must provide to the Town an annual updated copy of Form ADV, Part II;
3. Must be registered to conduct business in the Commonwealth of Virginia; and
4. Must have proven experience in providing investment management services under Code of Virginia §2.2-4500 et seq.
5. Acknowledge in writing their fiduciary responsibility to the Town;
6. Maintain minimum assets under management and demonstrate experience managing public-fund portfolios of comparable size and objectives;
7. Identify key personnel assigned to the Town and promptly notify the Treasurer of any material changes;
8. Provide historical performance data and benchmarks;
9. Maintain professional liability, fidelity, and cyber insurance coverage in amounts acceptable to the Town;
10. Disclose regulatory actions and maintain a written compliance program;

11. Utilize an independent custodian and provide custody statements directly to the Town;
12. Provide regular reporting and written certification of compliance with the Investment Policy; and
13. Fully disclose all fees and potential conflicts of interest.

Any firm engaged by the Town to provide investment services shall:

1. Maintain a list of approved security brokers/dealers selected by creditworthiness who are authorized to provide investment services in the Commonwealth of Virginia;
2. Provide monthly reports of transactions and holdings to the Treasurer;
3. Provide quarterly performance reports that display investment performance compared to an established and agreed upon investment benchmark for each portfolio;
4. Maintain sufficient records for any security purchased or sold on behalf of the Town which can be made available upon request;
5. Apply the diversification parameters across all of the Town's investments under the Investment Manager's management (excluding any of the Town's investments that are not managed by the Investment Manager); and
6. Not collect any soft dollar fees from any broker/dealer or other financial firm in relation to services provided to the Town.

### **Selection of Brokers/Dealers**

As needed, the Treasurer will maintain a list of broker/dealers that are approved for investment purposes. All broker/dealers who desire to provide investment services to the Town will be provided with current copies of the Investment Policy. Before an organization can provide investment services to the Town, it must confirm in writing that it has received and reviewed the Town's Investment Policy, and enter into a written agreement with the Town.

At the request of the Treasurer, broker/dealers will supply the Town with information sufficient to adequately evaluate their financial capacity and creditworthiness. The following information will be provided:

1. Audited financial statements;
2. Regulatory reports on financial condition;

3. Proof of Financial Institution Regulatory Authority (“FINRA”) certification and of state registration;
4. A sworn statement by an authorized representative of the broker/dealer pledging to adhere to “Capital Adequacy Standards” established by the Federal Reserve Bank and acknowledging the broker/dealer understands that the Town has relied upon this pledge; and
5. Any additional information requested by the Treasurer in evaluating the creditworthiness of the institution.

Only firms meeting the following requirements will be eligible to serve as broker/dealers for the Town:

1. “Primary” dealers and regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule);
2. Capital of at least \$10,000,000;
3. Registered as a dealer under the Securities Exchange Act of 1934;
4. Member of FINRA;
5. Registered to sell securities in the Commonwealth of Virginia;
6. Engaged in the business of effecting transactions in U.S. government and agency obligations for at least five (5) consecutive years; and.
7. Disclosure of any affiliations with other financial entities that might influence trading.

The Town shall designate broker/dealers on an annual basis. If an external third-party Investment Manager is engaged, the Town is not responsible for maintaining a list of approved broker/dealers.

### **Safekeeping and Custody**

All investment securities purchased by the Town or held as collateral on deposits or investments shall be held by the Town or by a third-party custodial agent that may not otherwise be counterparty to the investment transaction.

All securities in the Investment Portfolio will be held in the name of the Town and will be free and clear of any liens. Further, all investment transactions will be conducted on a delivery versus payment basis, as defined herein. The custodial agent shall issue a safekeeping receipt to the Town listing the specific instrument, rate, maturity, and other

pertinent information. On a monthly basis, the custodial agent will provide reports that list all securities held for the Town, the book value of holdings, and the market value as of month-end.

The officials and representatives of the custodial agent responsible for, or in any manner involved with, the safekeeping and custody process of the Town shall be bonded in such a manner as to protect the Town from losses from malfeasance and misfeasance.

Original copies of non-negotiable certificates of deposit and confirming copies of all other investment transactions must be delivered to the Town or its custodial agent.

### **Records and Reports**

The Treasurer will review any investment report on at least a monthly basis as provided by external and/or internal investment managers, or its custodial agent. Reports will provide an analysis of the status of the current investment portfolio and the individual transactions executed over the last quarter. This report will allow the Treasurer to ascertain whether investment activities during the reporting period have conformed to the Investment Policy.

These reports may include, at a minimum, the following:

1. An asset listing showing par value, cost and accurate and complete market value of each security, type of investment, issuer, and interest rate;
2. Average maturity of the portfolio and effective duration of the portfolio;
3. Maturity distribution of the portfolio;
4. Credit rating of each security within the portfolio;
5. Distribution by type of investment; and
6. Performance relative to established benchmarks.

Financial statement presentation of investments, accrual of interest, and amortization of premiums and accretion of discounts shall be according to generally accepted accounting principles as applied to municipalities. Those principles shall be as determined by the Commonwealth of Virginia Auditor of Public Accounts, the American Institute of Certified Public Accountants and its designated units, the Financial Accounting Standards Board and the Governmental Accounting Standards Board.

### **Performance Standards**

The Investment Portfolio will be designed to obtain at least a market level rate of return, given budgetary and economic cycles, commensurate with the Town's investment risk and

cash flow needs. The Town may periodically restructure the Investment Portfolio to take advantage of current and anticipated interest rate movements. The returns on the Portfolios will be compared on a quarterly basis to indices of U.S. Treasury securities having similar maturities or to other appropriate benchmarks. For funds having a weighted average maturity greater than 90 days, performance will be computed on a total return basis.

**Changes to Investment Policy / Code of Virginia:**

Changes (additions or deletions) to the Code of Virginia and the Securities for Public Deposits Act are automatically incorporated in this policy immediately upon legal implementation by the Commonwealth of Virginia and adoption by Town Council.

## Glossary

**Bankers' Acceptance (BA)** – 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.

**Benchmark** – A comparative base for measuring the performance or risk tolerance of the investment portfolio. A benchmark should represent a close correlation to the level of risk and the average duration of the portfolio's investments.

**Bid** – The price offered by a buyer of securities.

**Broker** – Brings buyers and sellers together for a commission.

**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.

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

**Delivery versus Payment** – A delivery of securities with an exchange of money for the securities.

**Discount** – The difference between the cost price of a security and its 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.

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

**Federal Agency** – Government sponsored/owned entity created by the U.S. Congress, generally for the purpose of acting as a financial intermediary by borrowing in the marketplace and directing proceeds to specific areas of the economy considered to otherwise have restricted access to credit markets, also referred to as Government

Sponsored Enterprises or GSEs. The largest are Ginnie Mae, Fannie Mae, Freddie Mac, Federal Home Loan Banks, and Federal Farm Credit Bank.

**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.

**Financial Industry Regulatory Authority (FINRA)** - It is a non-governmental, self-regulatory organization (SRO) authorized under federal securities laws and overseen by the Securities and Exchange Commission (SEC). FINRA's mission is to protect investors and maintain the integrity of U.S. securities markets.

**Liquidity** – The ability of ease with which an asset can be converted 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.

**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 establishes each party's rights in the transactions. A master agreement will often specify, among other things, the right the buyer-lender has 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.

**Nationally Recognized Statistical Rating Organization ("NRSRO")** – A credit rating agency which issues credit ratings that the U.S. Securities and Exchange Commission (SEC) permits other financial firms to use for certain regulatory purposes. Several examples include Moody's Investor Services, Standard & Poor's and Fitch Ratings.

**Offer** – The price asked by a seller of securities.

**Portfolio** – Collection of securities held by an investor.

**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 Virginia, 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.

**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.

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

**Securities & Exchange Commission (“SEC”)** – Agency created by Congress to protect investors in securities transactions by administering securities legislation.

**Weighted Average Life (WAL)** - Is calculated by weighting the time to each principal payment by the amount of principal being repaid in that period, relative to the total principal. It focuses only on principal payments, not interest. A shorter WAL generally indicates **lower credit risk** and faster return of principal.

**Weighted Average Maturity (WAM)** - Is the average amount of time, in days or years, until the investments in a portfolio mature, weighted by the size of each investment. It measures how long, on average, the portfolio will take to reach its final maturity and is used to gauge interest rate risk and liquidity. A shorter WAM means the portfolio is less sensitive to interest rate changes and more liquid, while a longer WAM can offer higher returns but comes with greater risk if rates rise.

**Uniform Net Capital Rule (SEC Rule 15C3-1)** – 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.

**Yield** – The rate of annual income return on an investment, expressed as a percentage. Income/Current yield is obtained by dividing the current dollar income by the current market price for the security. 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.