

**Town of Ranchester**  
**Statement of Investment Policy**  
11-7-2023

**I. Policy:**

This Statement of Investment Policy is adopted Pursuant to requirements of W.S. 9-4-831(h). It is the policy of the Town of Ranchester to invest public funds in a manner that will provide the highest investment return while assuring the maximum security of principal, meeting the daily cash flow demands of the Town of Ranchester, and conforming to all federal, state, and local laws and regulations governing the investment of public funds.

**II. Scope:**

This investment policy applies to all financial assets of the Town of Ranchester. These funds are accounted for in the Town's General Purpose Financial Statements and include:

**Funds:**

- General Funds
- Special Revenue Funds
- Capital Project Funds
- Enterprise Funds
- Water Fund
- Sewer Fund
- Sanitation Fund
- Economic Development Funds

Any new fund created will also be subject to this investment policy and to the requirements of W.S. 9-4-831(h).

Individual employee retirement funds and deferred compensation are excluded from this policy.

**III. Standards of Care:**

*1. 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. The Treasurer acting in accordance with written procedures and this investment policy and exercising due diligence shall be relieved of personal responsibility 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."

*2. Ethics and Conflicts of Interest*

Officers and 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 and investment officials 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.

The Town Investment Program shall be managed in a professional and prudent manner worthy of the public trust and review.

#### **IV. Objectives:**

The primary objectives, in priority order of the Town of Ranchester's investment activities, shall be safety, liquidity, and yield:

##### *1. Safety*

Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure preservation of capital in the overall portfolio. The objective will be to mitigate credit risk and interest rate risk.

##### a. Credit Risk

The Town of Ranchester will minimize credit risk, which is the risk of loss due to the failure of the security issuer or backer by:

- Limiting investments to the safest types of securities and those allowed by Wyoming State Statute.
- Pre-qualifying and maintaining a list of the financial institutions, broker/dealers, intermediaries, and advisors with whom The Town of Ranchester will do business.
- Diversifying the investment portfolio so that the impact of the potential losses from any one type of security or from any one individual issuer will be minimized.
- Holding a minimum of 5% of the total portfolio in highly marketable short-term treasuries, checking with interest, government pooled account or a combination of all three.

##### a. Interest Rate Risk

The Town of Ranchester will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by:

- Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity.
- Purchasing investments with the intent to hold until maturity.
- Investing operating funds primarily in shorter-term securities, or authorized government investment pools and limiting the duration of the portfolio in accordance with this policy.

##### *2. Liquidity*

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrently with cash needs to meet anticipated demands (static liquidity). Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity). Alternatively, a portion of the portfolio may be placed in money market mutual funds or authorized government investment pools which offer same-day liquidity for short-

term funds. The Town of Ranchester will not directly invest in securities maturing more than five (5) years from the date of settlement in accordance with state law.

### *3. Yield (Return on investment)*

The investment portfolio shall be designed with the objective of attaining a benchmark rate of return throughout budgetary and economic cycles while considering the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. The core of investments is limited to relatively low-risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities shall generally be held until maturity with the following exceptions:

- A security with declining credit may be sold early to minimize the loss of principal.
- A security swap would improve the quality, yield, or target duration in the portfolio.
- Liquidity needs of the portfolio require that the security be sold.

When selling a security prior to maturity, the Town Treasurer must be prepared to justify the reasons and explain any gains or losses.

It is important to remember that compliance with the policy does not measure return, but rather manages risk. Policy compliance does not provide a benchmark to meet or exceed but is a model to follow. The Town will benchmark its portfolio performance to the appropriate “treasuries constant maturity” rate based on portfolio maturities of the investment plan.

## **V. Investment Committee:**

In order to facilitate direct communication with the Council, the Town of Ranchester Finance Committee shall be established. The Committee shall be composed of:

- The Mayor
- The Town Treasurer
- Council Member

The purpose of the committee as it relates to the investing program shall be:

- The periodic review of and report on the Town’s investment activities.
- The periodic review of the Town’s investment policy.
- Review and comment on any amendments to the Town’s investment policy as proposed by the Town Treasurer.

## **VI. Investment Authority and Responsibility:**

### *1. Delegation of Authority*

Responsibility for the operation of the investment program is hereby delegated to the Town of Ranchester Treasurer who shall act in accordance with established written procedures and internal controls for the operation of the investment program consistent with this investment policy. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Town of Ranchester Treasurer. The Town of Ranchester Treasurer shall be responsible for all

transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

W.S. 9-4-831(h) requires every political subdivision to have a “Statement of Investment Policy” and that “before any person effects any investment transaction on behalf of a political subdivision or offers any investment advice to the governing body of a political subdivision, that person shall sign a statement indicating that he has read the policy and agrees to abide by applicable state law with respect to advice he gives and the transactions he undertakes on behalf of the political subdivision. “Person” does not include any officer, employee, or member of the governing board of the political subdivision for which the investment is made or to which advice is given.”

## *2. Responsibility Assigned*

The Town of Ranchester Treasurer shall invest all funds for the Town in accordance with the investment policy. In the absence of the Town Treasurer, authority is delegated first to the Mayor and then to an appointed council member. All designees shall act in accordance with the established policies and internal controls as outlined in the investment policy.

## **VII. Investment Procedures**

The Town of Ranchester Treasurer shall establish written investment procedures consistent with this investment policy for the operation of the investment program. Procedures shall include safekeeping, delivery vs. payment, investment accounting, repurchase agreements, wire transfer agreements, internal controls, collateral/depository agreements, daily cash flow review, basis for awarding bids, authorized personnel, and portfolio inventory. The procedures document is intended to provide guidance for staff and to provide continuity in the event of an interruption of service of the Town of Ranchester Treasurer.

## **VIII. Authorized Financial Institutions, Depositories, and Broker/Dealers:**

### *1. Selection Process*

A list of depository institutions, brokers/dealers and investment advisors authorized to provide investment services to the Town of Ranchester will be maintained. This list will state the maximum authorized deposit amount allowed in each depository and must be approved by the Town Council.

### *2. Depository Institutions*

Depository Institutions will be approved by the Treasurer based on the following:

- Depository must be licensed to conduct business in the State of Wyoming
- Creditworthiness - IDC Rating must be 200 or above.
- Qualification under the Securities and Exchange Commission (SEC) Rule 15C3-1 (uniform net capital rule)

An annual review of the financial condition of the approved depository institution will be conducted by the Treasurer.

### *3. Authorized Financial Institutions and Broker/Dealers*

All financial institutions, primary and regional broker/dealers, and registered investment advisors who desire to conduct business with the Town of Ranchester shall supply the Town with the following:

- Audited financial statements.
- Trading resolutions
- Proof of state registration
- Completed broker/dealer questionnaire.
- Copy of the broker’s license for the individuals servicing the account

- Resume of individual servicing the account
- Any pending legal or regulatory sanctions
- Signed statement of having read and agreeing to abide by the Town of Ranchester's investment policy.
- Evidence of adequate insurance coverage
- Proof of membership with FINRA, the Securities Exchange Commission (SEC), or other authorities

The Town Treasurer will conduct an annual review of the financial condition and registration of broker/dealers.

#### 4. *Investment Advisors*

The Town requires the following to retain a registered investment advisor to manage the Town's public funds.

- The Town Treasurer may use an investment advisor to conduct investment transactions on behalf of the Town Treasurer.
- The Town Treasurer, using an investment advisor to conduct investment transactions on behalf of the Town Treasurer, is responsible for full compliance with Wyoming State Statute.
- The Town Treasurer will use due diligence in the selection of an investment advisor and in monitoring compliance within the rules set by Wyoming State Statute
- The Town Treasurer shall assure compliance with the following minimum standards.
  - a. The Treasurer's use of an investment advisor shall be governed by a written investment advisory services agreement between the Town and the registered investment advisor.
  - b. Prior to entering into an investment advisory services agreement, the Town Treasurer shall request, and the registered investment advisor shall furnish the SEC Form ADV Part II for review and consideration by the Town Treasurer.
  - c. All investment transactions and activities of the Town Treasurer and the registered investment advisor must be in full compliance with all aspects of Wyoming State Statutes
  - d. Prior to entering into an investment advisory services agreement with a registered investment advisor, the Town Treasurer shall request, and the investment advisor shall furnish a clear and concise explanation of the investments advisory program, objectives, management approach and strategies used to add value to the portfolio and return, including the methods and securities to be employed.
- If selection of a registered investment advisor to provide investment advisory services to the Town is based upon the investment advisor's representation of special skill or expertise, the investment advisory services agreement shall require the registered investment advisor to act with the degree of care, skill, prudence, and diligence that a person having special skills or expertise acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with like aims.
- If the Town has contracted with an investment advisor for the management of public funds the Town Treasurer shall provide the details of those investments to the Town Council.

An annual review of safety of principal, liquidity of account(s), income generated, reporting and transparency, third party custody and body of registered investment advisor services will be conducted by the Treasurer.

## **IX. Statement of Compliance:**

The Town's investment portfolio will be managed with a commitment toward the benefit of the Town. To this end, investing in local institutions, domestic instruments offered by brokers, or through approved registered investment advisors will be the preferred investment strategy. Brokers and Registered investment advisors are subject to requirements of W.S. 9-4-831(h) and shall sign a statement indicating that they have read the policy and agree to abide by applicable state laws with respect to advice they give and the transactions they undertake on behalf of the Town.

## **X. Safekeeping and Custody:**

### *1. Delivery vs. Payment*

All trades of marketable securities will be executed by delivery vs. payment (DVP) to ensure that securities are deposited in an eligible financial institution prior to the release of funds. Securities will be held by a third-party custodian as evidenced by safekeeping receipts.

Safekeeping and Custodian Arrangements will be approved by the Treasurer based on the following:

- Ability to provide quarterly custodian statements to ensure accuracy with online investment reporting.
- Minimum Credit Rating by Moody's A1 or S&P A+, or Fitch A

The Treasurer will maintain a list of qualified Safekeeping and Custody providers.

### *2. Internal Controls*

The Treasurer is responsible for establishing and maintaining a control structure designed to ensure that funds of the Town are protected from loss, theft or misuse.

Review of compliance with the internal policy and related procedures shall be a part of the annual audit process conducted by the Town's independent auditors.

## **XI. Investment Parameters:**

### *1. Diversification*

The investment shall be diversified by:

- Limiting investments to avoid overconcentration in securities from a specific issuer or business sector (excluding US Treasury securities).
- Limiting investments in securities that have higher credit risks.
- Limiting certificates of deposit to the amount approved by Town Council for each financial institution in accordance with the Wyoming State Statute.
- Laddering the portfolio/investing in securities with varying maturities.
- Investing a minimum of 5% of the total portfolio in highly marketable short-term treasuries, checking accounts with interest, government pooled account, or a combination of all three.

### *2. Maximum Maturities*

#### **Operating Funds**

Operating funds are those funds that can be reasonably expended during a current budget year. These funds may only be invested in instruments that mature within three hundred sixty-five (365) days or less and in authorized government investment pools.

#### **Non- Operating Funds**

To extent possible, The Town of Ranchester shall attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, The Town of Ranchester will not direct investments in securities more than five (5) years from the date of settlement or in accordance with state and local statutes and ordinances.

## **XII. Master Repurchase Agreements**

A repurchase agreement is a contractual transaction agreement between an investor and an issuing financial institution. The investor exchanges cash for temporary ownership or control of collateral securities with an agreement between the parties that on a future date, the financial institution will repurchase the securities. A signed master repurchase agreement shall be on file with the financial institution with which repurchase transactions are made.

The master repurchase agreement must include the following provisions:

- The underlying collateral shall be limited to the United States Government, agency and instrumentalities.
- Collateral shall be marked to market daily by the custodian and shall be maintained at a value equal to or greater than the cash investment.
- At the time of purchase, the market value of the collateral shall represent 102% of the cash investment.
- An authorized third-party custodian or safekeeping agent shall hold all securities purchased under a repurchase agreement.
- A seller of repurchased securities shall not be entitled or authorized to substitute collateral, except as authorized by the Treasurer.
- Retail repurchase agreements and reverse agreements shall not be authorized for purchase.

## **XIII. Investment Pools**

Government sponsored investment pools are sources for short-term cash management. A thorough investigation of the pool is required prior to investing, and on a continual basis. Before investing in these pools, the following issues must be reviewed:

- The pool must meet the requirements allowed by W.S. 9-4-831(h).
- The pool must provide a written statement of policy and objectives.
- The following general topics must be defined by the pool:
  - A description of eligible investment securities, and a written statement of investment policy and objectives.
  - A description of interest calculations and how it is distributed, and how gains and losses are treated.
  - A description of how the securities is safeguarded (including the settlement processes), and how often the securities are priced, and the program audited.
  - A description of who may invest in the program, how often, and what size deposit and withdrawal are allowed.
  - A schedule for receiving statements and portfolio listings.
  - A description of how reserves, retained earnings, etc. are utilized by the pool.
  - A model of the fee schedule, and when and how it is assessed.
  - A description of eligibility and/or acceptance of bond proceeds.
- The pool must contain only the types of investment allowed by this policy.

## **XIV. Authorized Investments and Requirements:**

The Town Treasurer is authorized to invest only in those securities allowed by W.S. 9-4-831(h). The Town of Ranchester has set maximum maturities and maximum amounts held of each of the following security type to meet its objectives.

Investment	Requirements
<p><b>U.S. Treasurers and US Agency Obligations</b> (U.S. Treasury obligations are bills, notes and bonds issued by and direct obligation of the U.S. Govt. Agency Obligations are notes and bonds of Federal agencies and government sponsored enterprises, although not direct obligations of the Treasury, they involve federal sponsorship or guarantee).</p>	<ol style="list-style-type: none"> <li>1. No limit on the amount in the portfolio</li> <li>2. Needs council approval beyond 5 years maturity</li> <li>3. No minimum credit requirement</li> <li>4. Not to exceed 50% in any one type of agency name</li> </ol>
<p><b>WYOSTAR</b> (Investment pool or common fund in which all monies are co-mingled for investment purposes. All investments will conform to Wyoming Statutes W.S. 9-4-831)</p>	<ol style="list-style-type: none"> <li>1. No limit on the amount in the portfolio</li> </ol>
<p><b>Wyoming State Obligations</b> (general obligations of this state) and Other Obligations (revenue bonds of any county, Town, or any taxing district of the State of Wyoming)</p>	<ol style="list-style-type: none"> <li>1. Not to exceed 30% of total portfolio</li> <li>2. Not to exceed 5% in any one issuer</li> <li>3. Needs council approval beyond 5 years maturity</li> <li>4. Minimum Rating by Moody's A1 or S&amp;P A, or Fitch A</li> </ol>
<p><b>Commercial Paper</b> (Short-term, unsecured, promissory notes issued by firms in the open market. These notes are generally backed by a bank credit facility, guarantee/bond of indemnity, or some other agreement).</p>	<ol style="list-style-type: none"> <li>1. Not to exceed 270 days</li> <li>2. Not to exceed 10% of outstanding paper with one issuer</li> <li>3. Minimum Rating by Moody's P-1 or S&amp;P A-1+, or Fitch A1</li> </ol>
<p><b>Repurchase Agreements</b> (These are agreements between an investor (the pool) who agrees to purchase securities and a seller (dealer/broker), who commits to repurchase these securities at a later date at the same price, plus interest)</p>	<ol style="list-style-type: none"> <li>1. Market value of the security must be 102% or greater, and adjusted quarterly</li> <li>2. Term of Agreement may not exceed one year.</li> </ol>
<p><b>Negotiable Certificates of Deposit</b> (Issued by commercial banks and thrift institutions against funds deposited for specific periods of time and earn specified or variable rates of interest. NCD's differ from other CD's because of their increased liquidity as they are actively traded in the secondary market)</p>	<ol style="list-style-type: none"> <li>1. No more than \$250,000 invested per institution</li> <li>2. Must not exceed 5-year maximum term</li> <li>3. Minimum IDC rating of 200.</li> </ol>
<p><b>Bankers Acceptances - (Domestic Only)</b> (Eligible for purchase by the federal reserve system. A draft or a bill of exchange accepted by a bank or trust company and brokered to investors in a secondary market. Its purpose is to facilitate trade and provide liquidity in the import-export markets).</p>	<ol style="list-style-type: none"> <li>1. Not to exceed 180 days</li> <li>2. Not to exceed 10% of portfolio</li> <li>3. Not to exceed 5% of portfolio if done with one commercial bank</li> </ol>

## XV. Investment Strategy and Best Price Execution:

Securities will be purchased with the intent of holding the investment until maturity. Every purchase requires a minimum of three bids to execute at the best price. The following are the preferred investment strategies:



- **Laddering the Portfolio:** Securities will be purchased with regularly maturing dates. This provides both dollar cost averaging and a regular flow of available liquidity for the account to protect against rapid changes in rates.
- **Targeting Specific Maturity Dates:** Using projected spending schedules and its estimated cost to purchase securities that will mature at or around the date those funds will be needed. This reduces the amount of lower yielding “buffer” funds (money markets, etc.) that would be needed in the account and helps maximize yield.

## **XVI. Collateralization:**

In addition to the collateralization requirements found in W.S. 9-27-821, collateralization will also be required on the following types of investments:

- Time deposits; and
- Repurchase agreements.

An authorized independent third-party custodian or safekeeping agent shall hold all securities purchased under a repurchase agreement. Collateral shall be marked to market daily by the custodian and shall be maintained at a value equal to or greater than the cash investment. The underlying collateral shall be limited to the United States Government, agency, and instrumentalities.

In order to anticipate market changes, amounts of funds on deposit, and provide an adequate level of security for all deposited funds, the collateralization level will be 102%, or higher as required by law, of the higher of the par or market value of the deposits.

- The market value of deposits will include accrued interest.
- The adequacy of the pledged collateral will be measured by the market or par value of the collateral, whichever is the lesser.
- Authorized instruments for collateralization are those found in W.S. 9-4-821.

## **XVII. Performance Standards:**

The market value of investments shall be calculated monthly. Investment Portfolio to be reviewed quarterly by the Treasurer to determine objectives are being met. The Treasurer shall also report the status of investments on a quarterly basis to Town Council and Mayor. The benchmark for the portfolio shall be the applicable treasuries constant maturities rate as reported by the Federal Reserve.

## **XVIII. Reporting:**

The Treasurer shall provide an investment report semi-annually that provides an analysis of the status of the current investment portfolio and the individual transactions executed over the last six months, along with interest earned. The Report will compare the performance of Town’s investments to WYOSTAR or a treasury index with a similar average maturity. The report should be provided to Town of Ranchester Council members.

The report will include the following:

- Listing of individual securities held at the end of the reporting period.
- Listing of investments by maturity date.
- Interest earned for the period.

## **XIX. Investment Policy Adoption:**

The Town's Statement of Investment Policy shall be adopted by resolution of the Town Council and Investment Committee. The Policy shall be reviewed at minimum on an annual basis. Any changes must be approved by the Investment Committee and any modifications made thereto must be approved by the Town Council.

This policy shall become effective \_\_\_\_\_

Adopted this \_\_\_\_ day of \_\_\_\_\_

\_\_\_\_\_, Mayor of the Town of Ranchester

\_\_\_\_\_, Treasurer for the Town of Ranchester

\_\_\_\_\_, Council Members of the Town of Ranchester

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### **GLOSSARY**

**ADV FORM:** A required submission to the Securities and Exchange Commission (SEC) by a professional investment advisor that specifies the investment style, assets under management and key officers of the firm.

**AGENCIES:** Federal agency securities and /or Government-sponsored enterprises.

**ASKED:** The price at which securities are offered.

**BANKERS' ACCEPTANCE (BA):** A draft or bill or exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

**BECHMARK:** 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. (When you are selling securities, you ask for a bid.) See Offer.

**BROKER:** A broker brings buyers and sellers together for a commission.

**CALLABLE:** Issuers of bonds have the right to buy back the investment at par value. Issuers offer a higher interest rate on callable securities because if interest rates fall, they can get out of paying a higher interest rate.

**CERTIFICATE OF DEPOSIT (CD):** A time deposit with a specific maturity evidenced by a Certificate. Large-denomination CDs 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 deposit of public monies.

**COUPON:** (a) The annual rate of interest that a bond 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. Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.

**DERIVATIVES:** (1) Financial instruments whose return profile is linked to, or derived from, the movement of one or more underlying index or security, and may include a leveraging factor, or (2) financial contracts based upon notional amounts whose value is derived from an underlying index or security (interest rates, foreign exchange rates, equities or commodities).

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

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

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

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

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

**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):** Government sponsored wholesale banks (currently 12 regional banks), which lend funds and provide correspondent banking services to member commercial banks, thrift institutions, credit unions and insurance companies. The mission of the FHLBs is to liquefy the housing related assets of its members who must purchase stock in their district Bank.

**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 (HUD). 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 influencing the volume of bank credit 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 the FHA, VA or FmHA 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 a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow and reasonable size can be done at those quotes.

**LOCAL GOVERNMENT INVESTMENT POOL (LGIP):** The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment. (WYO-STAR)

**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.

**OFFER:** The price asked by a seller of securities. (When you are buying securities, you ask for an offer.) See Asked and Bid.

**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 who 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 the Securities and Exchange Commission (SEC) – registered securities broker-dealers, banks, and a few unregulated firms.

**PRUDENT PERSON RULE:** An investment standard. In some states the law requires that a fiduciary, such as a trustee, may invest money only in a list of securities selected by the custody state – the so-called legal list. In other states the trustee may invest in a security if it is one which would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

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

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

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

**SAFEKEEPING:** A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank’s vaults for protection.

**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.

**SECURITY SWAP:** Selling one type of security and purchasing another. Swaps can be used to hedge certain risks such as interest rate risk, or to speculate on changes in the expected direction of underlying prices.

**SEC RULE 15C3-1:** See Uniform Net Capital Rule.

**STRUCTURED NOTES:** Notes issued by Government Sponsored Enterprises (FHLB, FNMA, SLMA, etc.) and Corporations, which have imbedded options (e.g. call features, step-up coupons, floating rate coupons, derivative-based returns) into their debt structure. Their market performance is impacted by the fluctuation of interest rates, the volatility of the imbedded options and shifts in the shape of the yield curve.

**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 BONDS:** Long-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities of more than 10 years.

**TREASURY NOTES:** Medium-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities from two to 10 years.

**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.

**YIELD:** The rate of annual income returns 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.

