City of Trinity



Investment Policy

Adopted on January 8, 2023



Table of Contents

Introduction	1
Scope	1
Standard of Care	3
Authorized Financial Institutions, Depositories, Brokers/Dealers	4
Safekeeping and Custody	5
Investment Diversification and Maturities	6
Reporting	7
Broker/Dealer Questionnaire	9
Investment Trading Relationship Agreement	12
List of Brokers by FINRA	19
Glossary of Terms	32

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Introduction

The investment program shall be operated in conformance with federal, state and other legal requirements including North Carolina General Statute 159 – 30. The purpose of this investment policy is to set forth the investment and operational guidelines for the management of the public funds of the City of Trinity. This policy is designed to ensure the prudent management of public funds, the availability of operating and capital funds when needed, and a competitive return on investments.

A copy of this policy will be provided to all investment broker/dealers and investment managers doing business with the City of Trinity, and also will be provided to other interested parties upon request. Receipt of this policy, including confirmation that persons dealing directly with the City's account have reviewed it, will be received prior to any organization providing investment services to the City of Trinity.

Scope

This policy applies to the investment of all City funds, excluding the investment of funds that may be held for the benefit of retirees.

Pooling of Funds

Except for cash in certain restricted and special funds, the City will consolidate cash and reserve balances from all funds to maximize investment earnings and to increase efficiencies regarding investment pricing, safekeeping and administration. Cash being pooled/invested does not include municipal debt proceeds.

Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

The primary objective of investment activities shall be safety, liquidity, and return:

I. Safety

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

a. Credit Risk

The City of Trinity minimize credit risk, when is the risk of loss of all or part of the investment due to the failure of the security issuer or backer, by:

- Limiting investments to the types of securities authorized by the North Carolina General Statutes 159 30.
- Pre-qualifying and conducting ongoing due diligence of the financial institutions and broker/dealers with the City will do business in accordance with this policy
- Diversifying the investment portfolio so that the impact of potential losses from any one type of security or from any one individual issuer will be minimized.

b. Interest Rate Risk

The City of Trinity 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 rates, by:

- Structing the investment portfolio so that security maturities match cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity
- Investing operating funds primarily in shorter-term securities, North Carolina
 Capital Management Trust (NCCMT) Government and Term Portfolios,
 investment pools established by the State Treasurer, or similar investments
 and limiting individual security maturity as well as the average maturity of
 the portfolio in accordance with this policy

II. 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 concurrent 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 local government investment pools, which offer sameday liquidity for short-term funds.

III. Return

The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, 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 investments are 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 loss of principal;
- Unanticipated liquidity needs of the portfolio require that the security be sold;
- In the event of a credit risk or default by a specific issuer, the investment officer shall review and, if appropriate, proceed to liquidate securities with comparable credit risks

Standards of Care

I. Prudence

The standard of prudence to be used by City of Trinity's investment official(s) shall be the "uniform prudent investor act" standard and shall be applied in the context of managing an overall portfolio. Investment officer(s) acting in accordance with established 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 manner and the liquidity and the sale of securities are carried out in accordance with the terms of this policy.

II. 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. Investment official(s) shall disclose any material interests in financial institutions with which they conduct business, in accordance with applicable laws. They shall further disclose any personal financial/investment positions that could be related to the

performance of the investment portfolio. This disclosure need not include normal banking or brokerage relationships that are at normal market rates and conditions available to the public. Investment official(s) shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the City of Trinity.

III. Delegation of Authority

Authority to manage the investment program is granted to the Finance Director, hereinafter referred to as the Investment Officer and derived from North Carolina General Statute 159-25(a)(6). Responsibility for the operation of the investment program is hereby delegated to the Investment Officer, who shall act in accordance with established 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 Investment Officer. The Investment Officer may designate one or more members of the staff to assist in the performance of the functions of cash management and investing. Such delegation will not relieve the Investment Officer of responsibility for all transactions and executions performed by the designated individuals. The Investment Officer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

Authorized Financial Institutions, Depositories and Brokers/Dealers

A list will be maintained of financial institutions and depositories authorized to provide investment services. In addition, a list will be maintained of approved security broker/dealers selected by creditworthiness and/or other factors, such as FINRA broker check. These may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission (SEC) Rule 15C3-1 (uniform net capital rule).

All financial institutions and broker/dealers who desire to become qualified for investment transactions with the City of Trinity must supply the following as appropriate

 Audited financial statements demonstrating compliance with state and federal capital adequacy guidelines.

- Proof of Financial Industry Regulatory Authority (FINRA) certifications (not applicable to Certificate of Deposit counterparties).
- Proof of state registration.
- Completed Broker/Dealer Questionnaire and Investment Trading Relationship Agreement (not applicable to Certificate of Deposit counterparties).
- Certification of having read and understood and agreeing to comply with the City's investment policy.
- Evidence of adequate insurance coverage.

Safekeeping and Custody

I. 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 custody account prior to the release of funds.

II. Safekeeping

Securities will be held by a third-party custodian selected by the City with all securities held in the City of Trinity's name.

III. Internal Controls

The Investment Officer shall establish a system of internal controls. The controls shall be designed to prevent the loss of public funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officer of the City.

Suitable and Authorized Investments

Investments may be made in any type of security authorized by North Carolina General Statute 159-30. The Finance Director may elect to further limit the City of Trinity's investment security authority. The collateralization will be in accordance with North Carolina General Statute 159-31, the Investment Officer will require that sufficient collateral be pledged for public funds.

Investment Diversification and Maturities

The City of Trinity's will diversify its investment portfolio. To eliminate the risk of loss resulting from the overconcentration of assets in a specific maturity, issuer, or class of securities, all cash and cash equivalent assets in all City funds shall be diversified by maturity, issuer, and security type. Diversification strategies shall be determined and revised periodically by the Investment Officer for all funds.

In establishing specific diversification strategies, the following general policies and constraints shall apply to portfolio maturities remaining staggered to avoid undue concentration of assets in a specific maturity sector.

Maturities selected shall provide for stability of income and reasonable liquidity:

Maturity: No more than 50% of the portfolio may be invested beyond 2 years

Default Risk: In order to avoid over concentration in securities from a specific issuer or business sector (except for securities of the U.S. Treasury, investments in the NCCMT Government and Term Portfolios, and investment pools established by the State Treasurer):

- No more than 80% of the portfolio may be invested in government agency paper
 (AP)
- No more than 40% of the portfolio may be placed with a single issuer of government agency paper (AP)
- No more than 40% of the portfolio may be invested in commercial paper (CP)
- No more than 20% of the portfolio may be placed with a single issuer of commercial paper (CP)
- No more than 40% of the portfolio may be invested in qualified banker's acceptances
- No more than 20% of the City's portfolio may be placed with a single financial institution (must be identified as public funds and collateralized under the Pooling Method of collateralization as described in 20 N.C. Admin. Code 7 .0104) `

Liquidity Risk: Because of inherent difficulties in accurately forecasting cash flow requirements, a portion of the portfolio must be continuously invested in readily available

funds such as NCCMT Government and Term Portfolios, local government investment pools (LGIPs) established by the State Treasurer, money market funds or overnight repurchase agreements in order to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.

To the extent possible, the City of Trinity shall attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the City will not directly invest in securities maturing more than three (3) years from the date of purchase or in accordance with statutes.

All reserve funds and other funds with longer-term investment horizons may be invested in securities exceeding (3) three years if the maturity if such investments is made to coincide as nearly as practicable with the expected use of funds.

The Investment Officer shall obtain competitive bids for investment instruments based on diversification, maturity and cash flow considerations and requirements.

Reporting

The Finance Director/Investment Officer shall prepare quarterly investment reports for management purposes. These reports will be made available to the City Manager, Trinity City Council and/or other parties as desired. The reports will include information on investment types, market values, maturity dates, and yields.

The investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio should obtain a market average rate of return during a market/economic environment of stable interest rates.

The market value of the portfolio shall be calculated, and investments marked to market on a monthly basis. Reporting on the market value of the portfolio shall be disclosed quarterly (or as requested) to Trinity City Council. This will ensure that review of the investment portfolio, in terms of value and price volatility, has been performed consistent as applicable with the GFOA Recommended Practice on "Mark-to-Market Practices for State and Local Government Investment Portfolios and Investment Pools."

Policy Considerations and Approval of Investment Policy

This policy shall be reviewed on a regular basis by the Finance Director. Proposed changes must be submitted by the Finance Director for approval by City Council. The investment policy shall be formally approved and adopted by the City Council of the City of Trinity.



Broker/Dealer Questionnaire

1. Name of Firm:				
2. Address:				
3. Phone No	Fax No			
4. Primary Representative:	5. Manager Name:			
Name:				
Title:				
Phone No	Phone No			
6. Identify all other personnel who will be offering/bidding and/or quoting securities to City				
employees.	in so onorms, stading and	or quoting securious to only		
Name	Title	Phone No.		
PLEASE ATTACH RESUMES A	ND SEC EXIT FORM U-5	i (if previously employed		
by other investment firm) OF ALL PERSONNEL LISTED ABOVE.				
7. Is your firm a primary dealer in U.S. Government Securities? () Yes () No				
a. If yes, for how long has the firm been a primary dealer?years				
	•			
b. If no, does your firm qualify	y under Securities and Exc	hange Commission Rule		

8. What instruments are offered	ed regularly by your firm?	
() Treasury Bills () N.C. Gove	rnments () Treasury Notes	s/Bonds () Commercial Paper
Government Agencies		
() BA's (domestic) () BA's	s (foreign) () FFCB	() FNMA
(_) Mortgage Back Securities(S () FHLB () FFCB		
9. Please list your firms public	sector clients most compar	rable to the City.
Entity	Contact Person	Phone No.
-	ness with our organization l	orally that your firm or any of your has been responsible for investment
to a regulatory, state or feder	eral agency investigation es related to the sale or pu	ess with the City, ever been subject for alleged improper, fraudulent, archase of government securities or ttached sheet.
12. How many and what per	centage of your transaction	ons failed last month? Last year?
_		
•	•	Federal Reserve Bank's/Securities of this date does your firm comply

14. Please provide certified financial statements and other indicators regarding your firm's capitalization as an attachment.
15. Please provide samples of research reports which your firm regularly provides to public sector clients as an attachment.
As a condition of being an authorized Broker/Dealer for the City, you and your firm have received and read the City's Investment Policy. All sales personnel will be routinely informed of the City's investment objectives, horizon, outlook, strategies and risk constraint. By signing this questionnaire, you acknowledge the above conditions have been met.
Primary Representative:
Firm's Authorized Signer:
Date:



Investment Trading Relationship Agreement

In consideration of and as a prerequisite to conducting investment business with the City of Trinity, North Carolina, the undersigned investment/financial firm (______) agrees to the following terms and conditions:

ELIGIBLE INVESTMENT SECURITIES

The firm acknowledges that it has reviewed and is aware of the North Carolina State Statutes governing the investments which are eligible for purchase by local governments in North Carolina. The firm agrees to offer no investment to the City of Trinity that does not meet these statutory and regulatory guidelines. North Carolina State Statute 159-30 is listed below.

§ 159-30. Investment of idle funds.

- a. A local government or public authority may deposit interest or invest all or part of the cash balance of any fund. The finance officer shall manage investments subject to whatever restrictions and directions the governing board may impose. The finance officer shall have the power to purchase, sell, and exchange securities on behalf of the governing board. The investment program shall be so managed that investments and deposits can be converted into cash when needed.
- b. Moneys may be deposited at interest in any bank, savings and loan association, or trust company in this State in the form of certificates of deposit or such other forms of time deposit as the Commission may approve. Investment deposits, including investment deposits of a mutual fund for local government investment established under subdivision (c)(8) of this section, shall be secured as provided in G.S. 159-31(b).
- (b1) In addition to deposits authorized by subsection (b) of this section, the finance officer may deposit any portion of idle funds in accordance with all of the following conditions:
 - (1) The funds are initially deposited through a bank or savings and loan association that is an official depository and that is selected by the finance officer.

- (2) The selected bank or savings and loan association arranges for the deposit of funds in certificates of deposit for the account of the local government or public authority in one or more federally insured banks or savings and loan associations wherever located, provided that no funds shall be deposited in a bank or savings and loan association that at the time holds other deposits from the local government or public authority.
- (3) The full amount of principal and any accrued interest of each certificate of deposit are covered by federal deposit insurance.
- (4) The selected bank or savings and loan association acts as custodian for the local government or public authority with respect to the certificates of deposit issued for the local government's or public authority's account.
- (5) At the same time that the local government or public authority funds are deposited and the certificates of deposit are issued, the selected bank or savings and loan association receives an amount of deposits from customers of other federally insured financial institutions wherever located equal to or greater than the amount of the funds invested by the local government or public authority through the selected bank or savings and loan association.
- (c) Moneys may be invested in the following classes of securities, and no others:
- (1) Obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States. (2) Obligations of the Federal Financing Bank, the Federal Farm Credit Bank, the Bank for Cooperatives, the Federal Intermediate Credit Bank, the Federal Land Banks, the Federal Home Loan Banks, the Federal Home Loan Mortgage Corporation, Fannie Mae, the Government National Mortgage Association, the Federal Housing Administration, the Farmers Home Administration, the United States Postal Service.
- (3) Obligations of the State of North Carolina.
- (4) Bonds and notes of any North Carolina local government or public authority, subject to such restrictions as the secretary may impose.

- (5) Savings certificates issued by any savings and loan association organized under the laws of the State of North Carolina or by any federal savings and loan association having its principal office in North Carolina; provided that any principal amount of such certificate in excess of the amount insured by the federal government or any agency thereof, or by a mutual deposit guaranty association authorized by the Commissioner of Banks of the Department of Commerce of the State of North Carolina, be fully collateralized.
- (6) Prime quality commercial paper bearing the highest rating of at least one nationally recognized rating service and not bearing a rating below the highest by any nationally recognized rating service which rates the particular obligation.
- (7) Bills of exchange or time drafts drawn on and accepted by a commercial bank and eligible for use as collateral by member banks in borrowing from a federal reserve bank, provided that the accepting bank or its holding company is either
 - (i) incorporated in the State of North Carolina or
 - (ii) has outstanding publicly held obligations bearing the highest rating of at least one nationally recognized rating service and not bearing a rating below the highest by any nationally recognized rating service which rates the particular obligations.
- (8) Participating shares in a mutual fund for local government investment; provided that the investments of the fund are limited to those qualifying for investment under this subsection (c) and that said fund is certified by the Local Government Commission. The Local Government Commission shall have the authority to issue rules and regulations concerning the establishment and qualifications of any mutual fund for local government investment.
- (9) A commingled investment pool established and administered by the State Treasurer pursuant to G.S. 147-69.3.
- (10) A commingled investment pool established by inter-local agreement by two or more units of local government pursuant to G.S. 160A-460 through G.S. 160A-464, if the investments of the pool are limited to those qualifying for investment under this subsection (c).

- (11) Evidence of ownership of, or fractional undivided interests in, future interest and principal payments on either direct obligation of the United States government or obligations the principal of and the interest on which are guaranteed by the United States, which obligations are held by a bank or trust company organized and existing under the laws of the United States or any state in the capacity of custodian.
- (12) Repurchase agreements with respect to either direct obligations of the United States or obligations the principal of and the interest on which are guaranteed by the United States if entered into with a broker or dealer, as defined by the Securities Exchange Act of 1934, which is a dealer recognized as a primary dealer by a Federal Reserve Bank, or any commercial bank, trust company or national banking association, the deposits of which are insured by the Federal Deposit Insurance Corporation or any successor thereof if:
 - a. Such obligations that are subject to such repurchase agreement are delivered (in physical or in book entry form) to the local government or public authority, or any financial institution serving either as trustee for the local government or public authority or as fiscal agent for the local government or public authority or are supported by a safekeeping receipt issued by a depository satisfactory to the local government or public authority, provided that such repurchase agreement must provide that the value of the underlying obligations shall be maintained at a current market value, calculated at least daily, of not less than one hundred percent (100%) of the repurchase price, and, provided further, that the financial institution serving either as trustee or as fiscal agent for the local government or public authority holding the obligations subject to the repurchase agreement hereunder or the depository issuing the safekeeping receipt shall not be the provider of the repurchase agreement;
 - **b.** A valid and perfected first security interest in the obligations which are the subject of such repurchase agreement has been granted to the local government or public authority or its assignee or book entry procedures, conforming, to the extent practicable, with federal regulations and satisfactory to the local government or public authority have been established for the benefit of the local government or public authority or its assignee;

- c. Such securities are free and clear of any adverse third-party claims; and
- **d.** Such repurchase agreement is in a form satisfactory to the local government or public authority.
- (13) In connection with funds held by or on behalf of a local government or public authority, which funds are subject to the arbitrage and rebate provisions of the Internal Revenue Code of 1986, as amended, participating shares in tax-exempt mutual funds, to the extent such participation, in whole or in part, is not subject to such rebate provisions, and taxable mutual funds, to the extent such fund provides services in connection with the calculation of arbitrage rebate requirements under federal income tax law; provided, the investments of any such fund are limited to those bearing one of the two highest ratings of at least one nationally recognized rating service and not bearing a rating below one of the two highest ratings by any nationally recognized rating service which rates the particular fund.
- (d) Investment securities may be bought, sold, and traded by private negotiation, and local governments and public authorities may pay all incidental costs thereof and all reasonable costs of administering the investment and deposit program. Securities and deposit certificates shall be in the custody of the finance officer who shall be responsible for their safekeeping and for keeping accurate investment accounts and records.
- (e) Interest earned on deposits and investments shall be credited to the fund whose cash is deposited or invested. Cash of several funds may be combined for deposit or investment if not otherwise prohibited by law; and when such joint deposits or investments are made, interest earned shall be prorated and credited to the various funds on the basis of the amounts thereof invested, figured according to an average periodic balance or some other sound accounting principle. Interest earned on the deposit or investment of bond funds shall be deemed a part of the bond proceeds.
- (f) Registered securities acquired for investment may be released from registration and transferred by signature of the finance officer. (1957, c. 864, s. 1; 1967, c. 798, ss. 1, 2; 1969, c. 862; 1971, c. 780, s. 1; 1973, c. 474, ss. 24, 25; 1975, c. 481; 1977, c. 575; 1979, c. 717, s. 2; 1981, c. 445, ss. 1-3; 1983, c. 158, ss. 1, 2; 1987, c. 672, s. 1; 1989, c.

76, s. 31; c. 751, s. 7(46); 1991 (Reg. Sess., 1992), c. 959, s. 77; c. 1007, s. 40; 1993, c. 553, s. 55; 2001-193, s. 16; 2001-487, s. 14(o); 2005-394, s. 2.)

CONFIRMATION AND MONTHLY STATEMENTS

The firm agrees that it will send confirmation of every transaction promptly to the following email address: cpostell@trinity-nc.gov

DELIVERY INSTRUCTIONS

The firm agrees to deliver securities to the City of Trinity by form of check or wire whichever is cost effective at the time of delivery.

FINANCIAL STATEMENTS

The firm agrees to send its annual audited financial statements to the Finance Director within a reasonable time after the end of each fiscal year. This information should be sent to: cpostell@trinity-nc.gov

CANCELLATION

This agreement may be immediately canceled upon written notification by the firm or by the City of Trinity.

DESIGNATED INDIVIDUALS WHO MAY EXECUTE INVESTMENT TRANSACTION

The firm agrees to execute investment transactions for the City of Trinity only with the Finance Director.

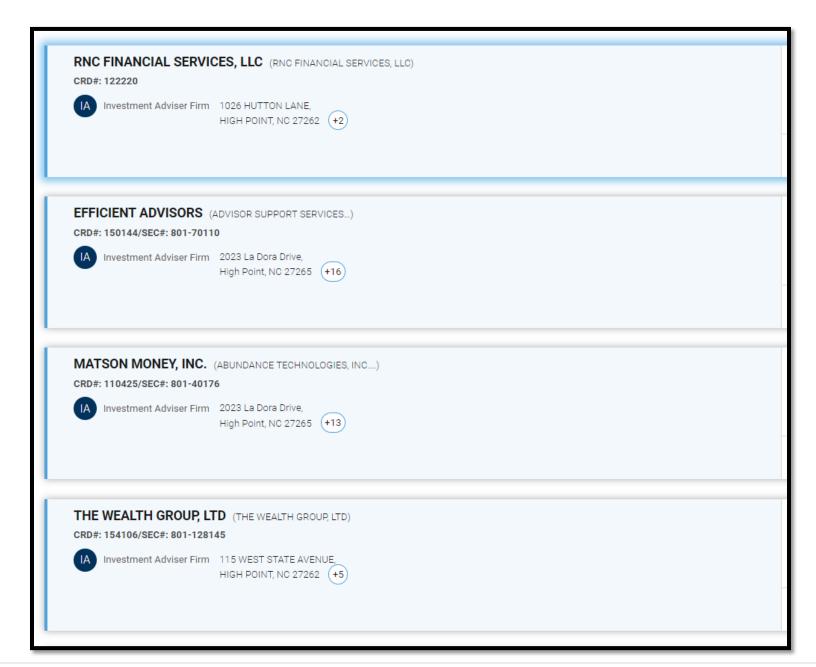
The undersigned authorized representative of the firm agrees, on behalf of the firm, that the provisions of this agreement will be followed and that if the City sustains losses as a result of the firm's failure to abide by this agreement, then the firm will be liable for these losses and will reimburse the City the amount of these losses. The firm also agrees that any changes to this agreement will not be effective unless authorized in writing by the Finance Director for the City of Trinity.

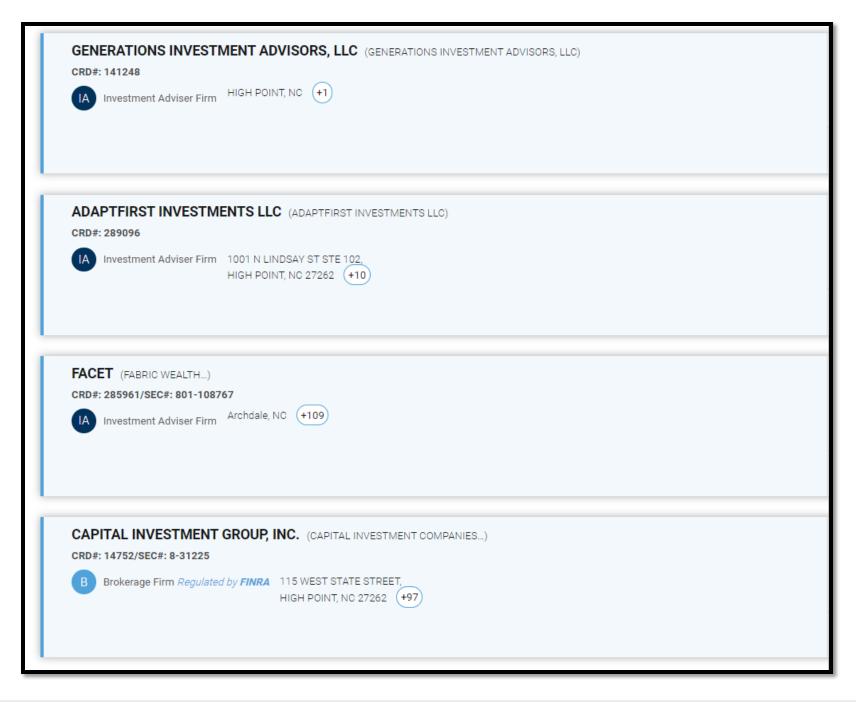
Firm Name	Address	
Person Authorized to Bind Firm	Position/Title	Date

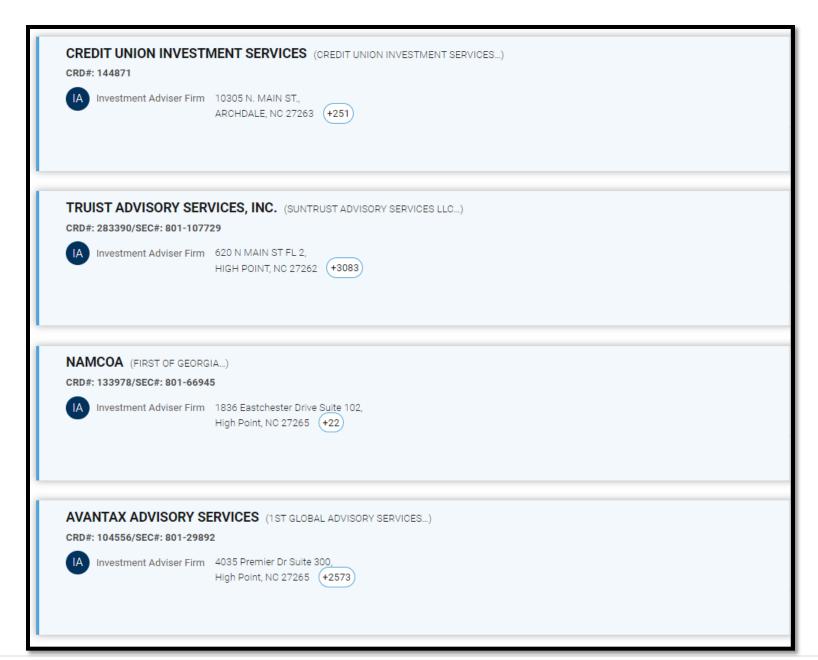
Authorized Firm Representatives

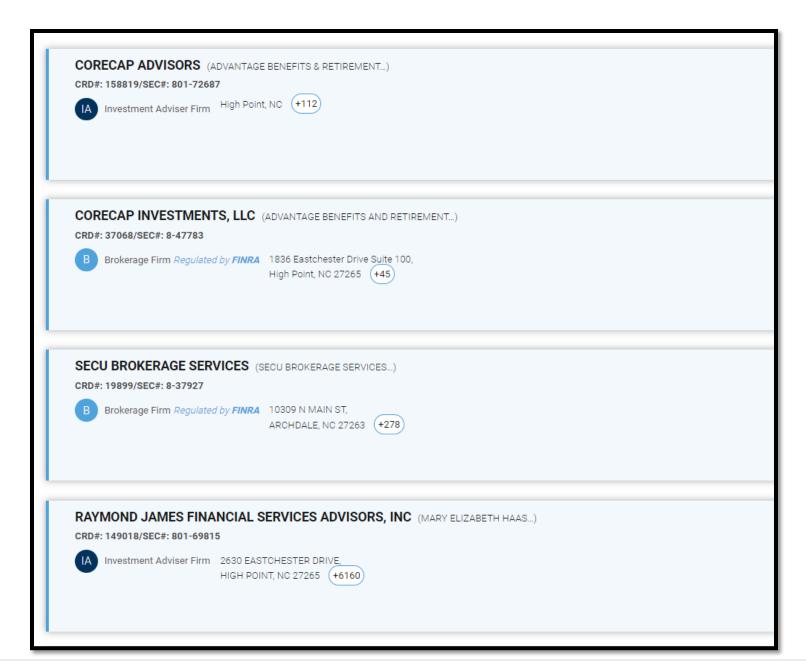
The following individuals are authorized	d to execute investment trades
City of Trinity	
PO Box 50	
5978 NC HWY 62	
Trinity, NC 27370	
Crystal Postell, Finance Director City of Trinity	Date

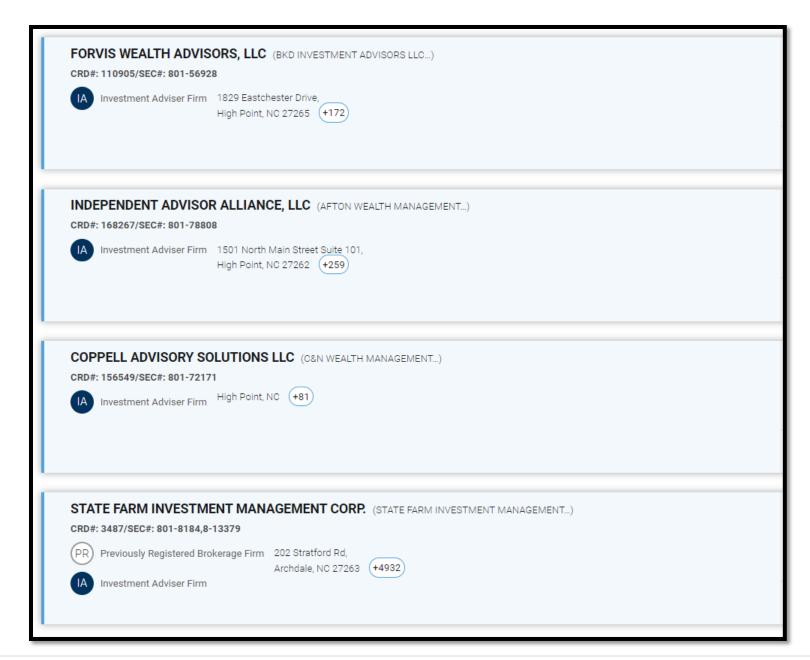


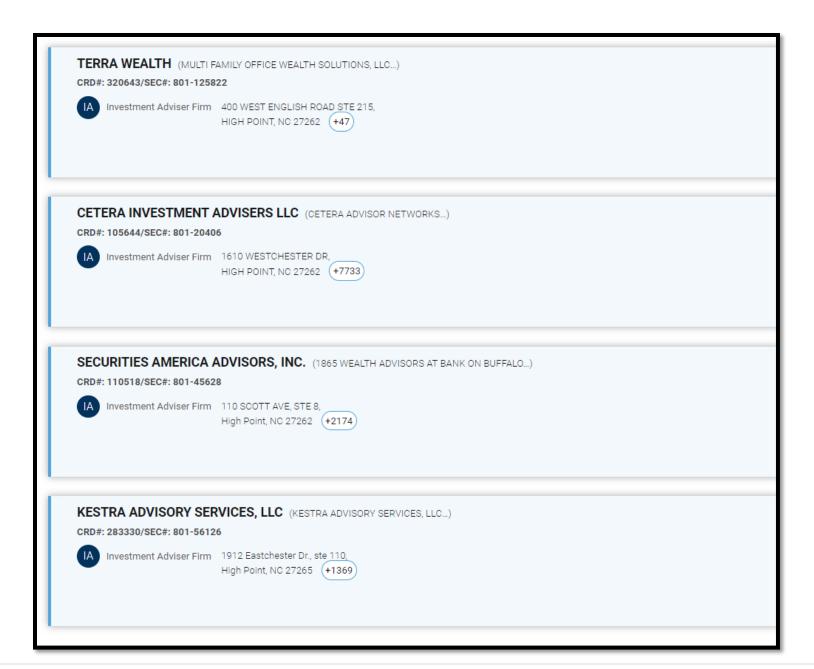


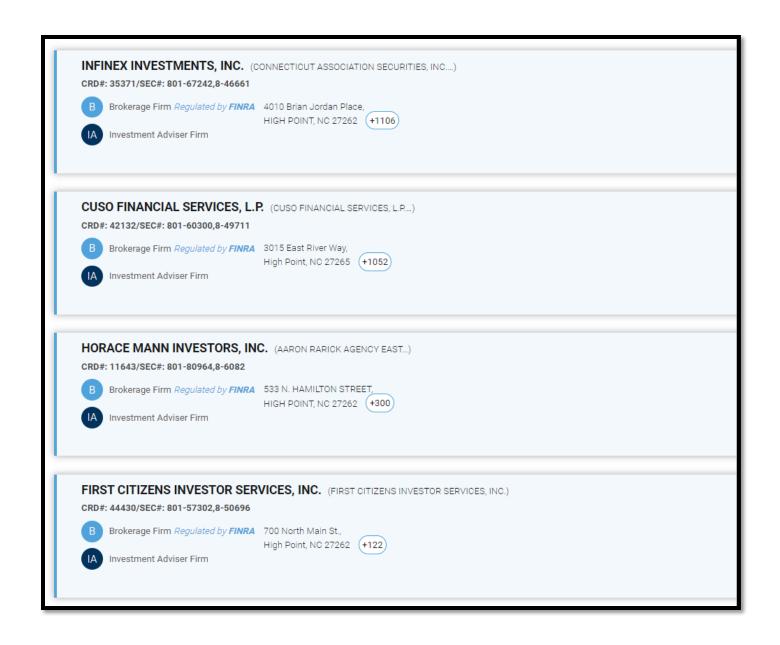


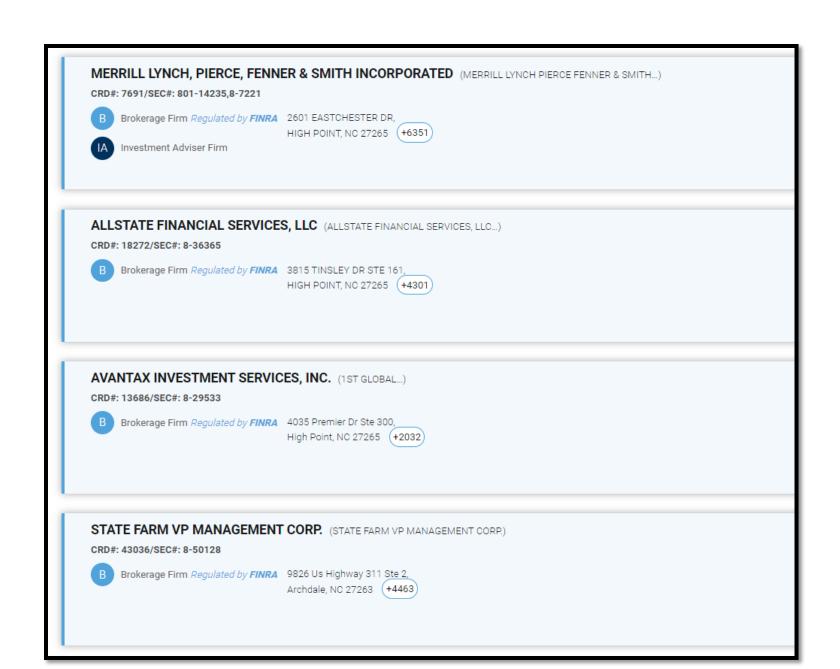


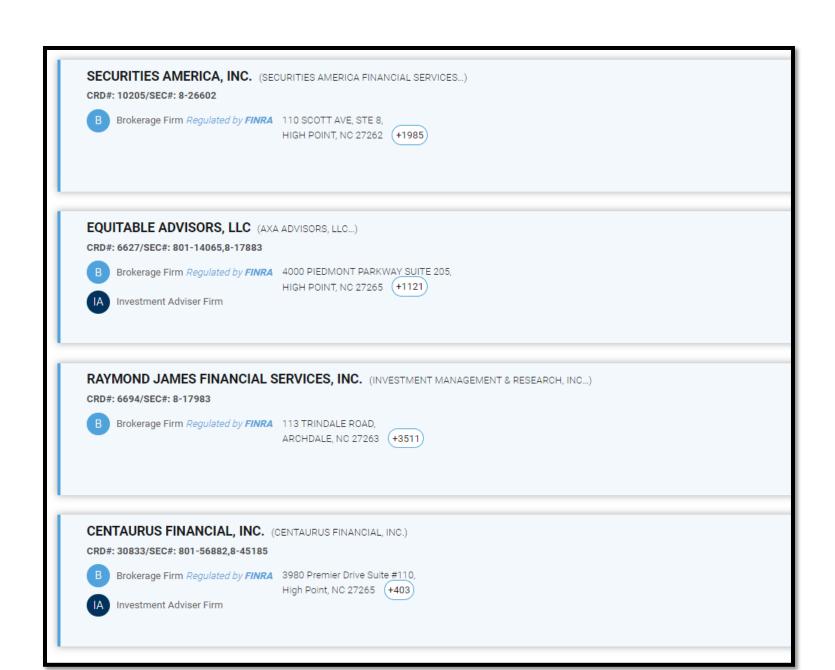


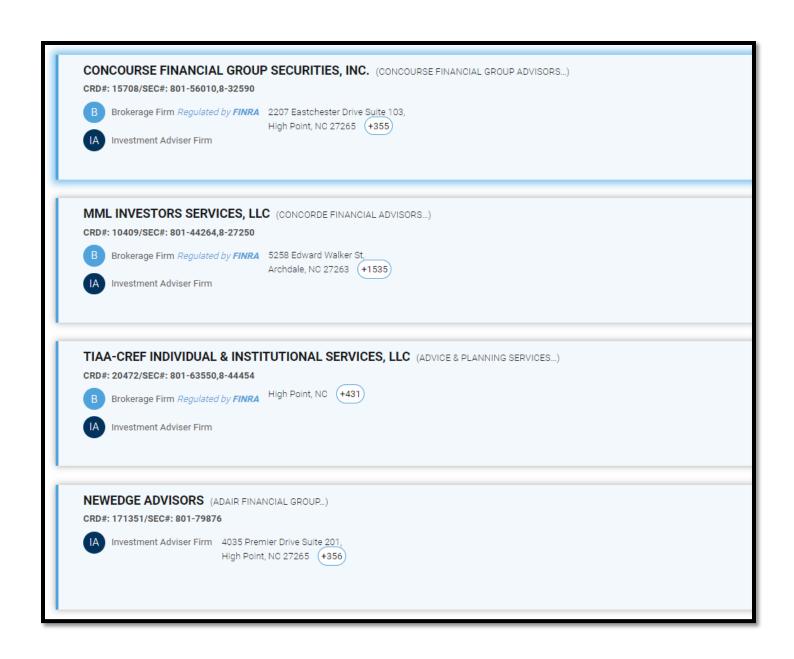


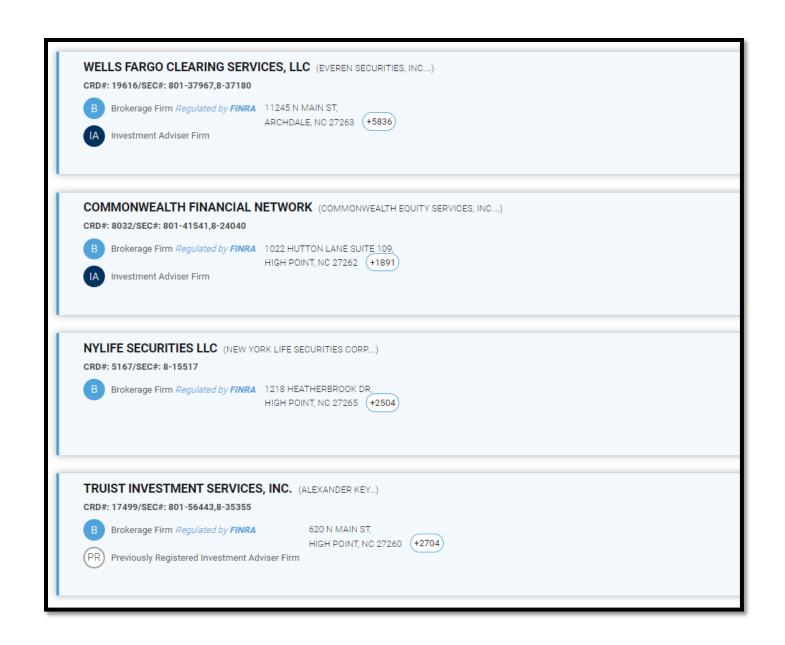


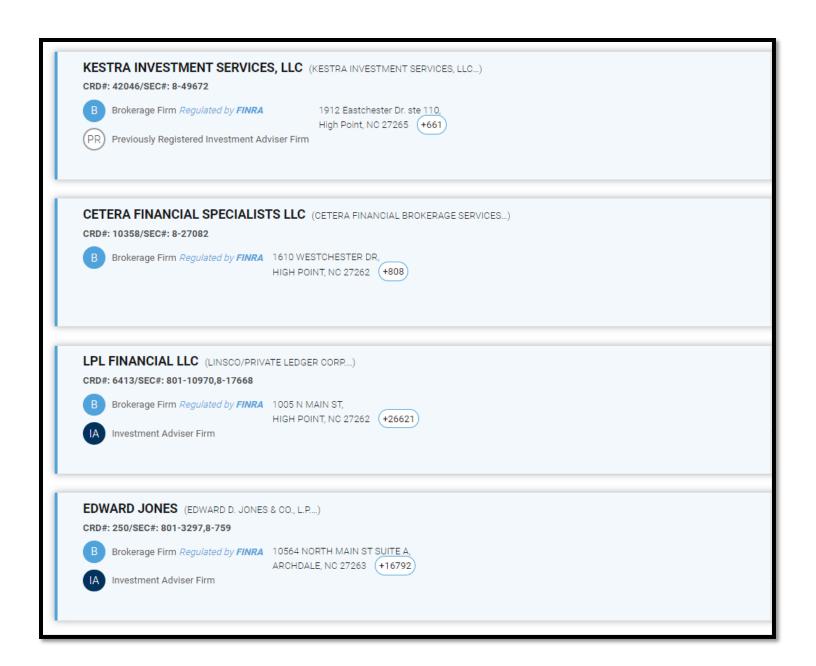














Glossary of Terms

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

ANNUAL COMPREHENSIVE FINANCIAL REPORT (ACFR): An ACFR is a set of financial statements for a state, municipality or other governmental entity that comply with the accounting requirements established by the Governmental Accounting Standards Board (GASB). It must be audited by an independent auditor using generally accepted government auditing standards. The ACFR consists of three sections: introductory, Financial and Statistical. The Introductory section orients and guides the reader through the report; the financial section presents the entity's basic financial statements as well as notes to the statements and the independent auditors' report; and, the statistical section provides additional financial and statistical data, including data about financial trends that may better inform the reader about the government's activities.

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.

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

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

CERTIFICATE OF DEPOSIT (CD): A time deposit with a specific maturity evidenced by a Certificate. Largedenomination 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.

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

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

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

DELIVERY VERSUS PAYMENT: There are two methods of delivery of securities: delivery versus payment and delivery versus receipt. 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 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 a discount and redeemed at maturity for full face value, e.g., U.S. Treasury Bills.

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

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

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

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

FEDERAL HOME LOAN BANKS (FHLB): 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 Government National Mortgage Association (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.

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

STRUCTURED NOTES: Notes issued by Government Sponsored Enterprises (FHLB, FFCB, FNMA, 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 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