CITY OF SAGINAW, TEXAS
INVESTMENT POLICY

City of Saginaw

Amended September 3, 2019 –Resolution 2019-16

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CITY OF SAGINAW RESOLUTION NO. 2022-21

A RESOLUTION BY THE CITY COUNCIL OF THE CITY OF SAGINAW, TEXAS, ADOPTING AND APPROVING A REVISED CITY OF SAGINAW, TEXAS, INVESTMENT POLICY

WHEREAS, the City Staff has prepared revisions to the City of Saginaw, Texas Investment Policy as adopted on January 26, 1988, and as heretofore revised on September 6, 1988, February 6, 1990, March 5, 1996, September 18, 2001, December 7, 2010, October 3, 2017, September 3, 2019, and September 7, 2021 ;

WHEREAS, the Investment Committee has heretofore studied and made its changes to such proposed revised policies, and there is attached to this Resolution a complete copy of the City of Saginaw, Texas Investment Policy, as revised on the date of adoption of this Resolution; NOW, THEREFORE;

BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF SAGINAW, TEXAS:

1. That the City Council of the City of Saginaw, Texas, does hereby formally approve and adopt the REVISED CITY OF SAGINAW, TEXAS INVESTMENT POLICY, as a copy is attached to this Resolution and as revised and amended on the 20^{h} day of September, 2022.

2. That henceforth the Revised Investment Policy hereby adopted shall be in full force and effect and shall supersede and amend any prior such policy and provisions thereof.

ADOPTED AND APPROVED this 20th day of September, 2022.

APPROVED:

_____
Todd Flippo, Mayor
of the City of Saginaw, Texas

ATTEST:

_____
Janice England, City Secretary

APPROVED AS TO FORM AND LEGALITY:

_____
Bryn Meredith, City Attorney

INTRODUCTION

The purpose of this document is to set forth specific investment policy and strategy guidelines for the City of Saginaw in order to achieve the goals of safety, liquidity, yield, and public trust for all investment activity. The policy and strategy shall be reviewed annually by the Investment Committee and any modifications must be approved by the Investment Committee and forwarded to the City Council for final approval. This Investment Policy, as approved, is in compliance with Chapter 2256 of the Government Code, also known as "The Public Funds Investment Act".

INVESTMENT STRATEGY

The City of Saginaw maintains portfolios which utilize four specific investment strategy considerations designed to address the unique characteristics of the fund groups represented in the portfolios:

A. Investment strategies for operating funds and commingled pools containing operating funds have as their primary objective to assure that anticipated cash flows are matched with adequate investment liquidity. The secondary objective is to create a portfolio structure, which will experience minimal volatility during economic cycles. This may be accomplished by purchasing high quality, short- to medium-term securities, which will complement each other in laddered or barbell maturity structure. The dollar weighted average maturity of these funds will remain within the six to nine month range.

B. Investment strategies for debt service funds shall have as the primary objective the assurance of investment liquidity adequate to cover the debt service obligation on the required payment date. Securities purchased shall not have a stated final maturity date that exceeds the debt service payment date.

C. Investment strategies for debt service reserve funds shall have as the primary objective the ability to generate a dependable revenue stream to the appropriate debt service fund from securities with a low degree of volatility. Securities should be of high quality and, except as may be required by the bond ordinance specific to an individual issue, of short to intermediate-term maturities. Such securities will tend to hold their value during economic cycles. The stated final maturity dates of securities held should not exceed two years.

D. Investment strategies for capital improvement projects or special purpose funds should allow for flexibility and unanticipated project outlays by having a portion of their investments in highly liquid securities. The stated final maturity dates of securities held should not exceed the estimated project completion date.

INVESTMENT POLICY

I. SCOPE

This investment policy applies to all financial assets of the City of Saginaw. These funds are accounted for in the City's ~~Comprehensive Annual Financial Report (CAFR)~~ Annual Comprehensive Financial Report (ACFR) and include:

* General Fund
* Special Revenue Funds
* Debt Service Funds
* Capital Projects Funds
* Enterprise Fund
* Trust and Agency Funds

These funds, as well as funds that may be created from time-to-time, shall be administered in accordance with the provisions of these policies. All funds will be pooled for investment purposes. The strategy developed for this pooled fund group will address the varying needs, goals, and objectives of each fund.

II. OBJECTIVES

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

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

Safety

The primary objective of the City's investment activity is the preservation of capital in the overall portfolio. Each investment transaction shall be conducted in a manner to avoid capital losses.

Liquidity

The City's investment portfolio will remain sufficiently liquid to enable the City to meet all obligations in a timely manner. This shall be achieved by matching investment maturities with forecasted cash flow requirements and by investing in securities with active secondary markets.

Yield

The City's cash management portfolio shall be designed with the objective of regularly exceeding the average rate of return on three-month U.S. Treasury Bills. The investment program shall seek to augment returns above this threshold consistent with risk limitations identified herein and prudent investment policies.

Public Trust

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

III. RESPONSIBILITY AND CONTROL

Investment Committee

An Investment Committee, consisting of the Mayor, the City Manager, the Finance Director, and the ~~Financial Analyst~~ Finance Manager shall meet as needed to determine operational strategies and to monitor results. The Investment Committee shall include in its deliberation such topics as: performance reports, economic outlook, portfolio diversification, maturity structure, potential risk to the City's funds, authorized brokers and dealers, and the target rate of return on the investment portfolio. The Investment Committee shall be authorized to invite advisors to the meetings as needed including, but not limited to, the City Attorney, the City Council, or outside advisors. The Investment Committee shall, at least annually, review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the City.

Delegation of Authority and Training

Authority to manage the City's investment program is derived from a resolution of the City Council. The Finance Director is designated as investment officer of the City and is responsible for investment decisions and activities. The Finance Director shall establish written procedures for the operation of the investment program, consistent with this investment policy. The investment officer shall attend at least one training session containing at least ten hours of instruction relating to the officer's responsibility under the Act within twelve months after assuming duties and attend an investment training session not less than once in a two year period and receive not less than ~~ten~~ eight hours of instruction relating to the investment responsibilities. Approved independent training sources include the Government Finance Officers Association of Texas, the Government Treasurers Organization of Texas, and the University of North Texas Center for Public Management.

Internal Controls

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

Prudence

The standard of prudence to be applied by the investment officer shall be the "prudent investor" rule, which states: "Investments shall be made with judgment and care, under prevailing circumstances, which persons of prudence, discretion and intelligence would exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived." In determining whether an investment officer has exercised prudence with respect to an investment decision, the determination shall be made taking into consideration:

A. The investment of all funds, or funds under the City's control, over which the officer has responsibility rather than a consideration as to the prudence of a single investment.

B. Whether the investment decision was consistent with the written investment policy of the City.

The investment officer, acting in accordance with written procedures and exercising due diligence, shall not be held personally responsible for a specific security's credit risk or market price changes, provided that these deviations are reported immediately and that appropriate action is taken to control adverse developments.

Ethics and Conflicts of Interest

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

An investment officer of the City who has a personal business relationship with an organization seeking to sell an investment to the City shall file a statement disclosing that personal business interest. An investment officer who is related within the second degree by affinity or consanguinity, as determined under Chapter 573 of the Texas Government Code, to an individual seeking to sell an investment to the City shall file a statement disclosing that relationship. A statement required under this subsection must be filed with the Texas Ethics Commission and the governing body of the City.

An officer or employee involved in the investment process has a personal business relationship with a business organization if:

A. The officer or employee owns ten percent or more of the voting stock or shares of the business organization or owns $5,000 or more of the fair market value of the business organization.

B. Funds received by the officer or employee from the business organization exceed ten percent of his/her gross income for the previous year; or

C. The officer or employee has acquired from the business organization during the previous year investments with a book value of $2,500 or more for his/her personal account.

IV. REPORTING

Quarterly Reporting

The Finance Director shall submit not less than quarterly a signed investment report that summarizes current market conditions economic developments and anticipated investment conditions. The report shall summarize investment strategies employed in the most recent quarter, and describe the portfolio in terms of investment securities, maturities, risk characteristics, and shall explain the total investment return for the quarter. The report shall be in compliance with the Public Fund Investment Act.

V. AUTHORIZED AND SUITABLE INVESTMENT SECURITIES

Active Portfolio Management

The City intends to pursue an active versus a passive portfolio management philosophy. That is, securities may be sold before they mature if market conditions present an opportunity for the City to benefit from the trade.

Authorized Investments

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

A. Obligations issued, guaranteed, or insured by the United Stated or its agencies and instrumentalities.

B. Deposits in financial institutions with a main office or branch in Texas, guaranteed or insured by the Federal Deposit Insurance or its successor or collateralized as defined in the Safekeeping and Custody section of this Policy. In addition, Certificates of Deposit obtained through a depository institution that has its main office or a branch office in Texas and that contractually agrees to place the funds in federally insured depository institutions in accordance with the conditions prescribed in Section 256.010(b) of the Act are authorized investments.

C. Fully collateralized direct repurchase agreements with a defined termination date secured by obligations of the United States or its Agencies and Instrumentalities, pledged to the City, held in the City's name, and deposited with a third party, selected by the Finance Director, other than an agency for the pledgor. Repurchase agreements must be purchased through a primary government securities dealer, as defined by the Federal Reserve, or a bank domiciled in Texas.

D. Local government investment pools organized in conformity with Chapter 2256 (Public Funds Investment Act) of the Government Code that:

    1. Have a dollar-weighted average stated maturity of 90 days or fewer
    2. Seek to maintain a stable net asset value of $1 per share
    3. Are rated not less than AAA or AAA-m or at an equivalent rating by at least one nationally recognized rating service.
    4. Have provided the City with an offering circular and other information required by the Public Funds Investment Act.

To become eligible, investment pools must meet all the requirements of state law as determined under Chapter 2256 of the Government Code, as amended; and be approved by a City Council action. Investments will be made in a local government pool only after a thorough investigation of the pool and approval by the Investment Committee which shall, at least annually, review, revise, and adopt a list of approved pools.

Holding Period

The City of Saginaw intends to match the holding periods of investment funds with liquidity needs of the City. In no case will the average maturity of investments of the City's operating funds exceed one year. The maximum final stated maturity of any investment shall not exceed two years.

Risk and Diversification

The City of Saginaw recognizes that investment risks can result from issuer defaults, market price changes or various technical complications leading to temporary illiquidity. Risk is controlled through portfolio diversification which shall be achieved by the following general guidelines:

A. Risk of issuer default is controlled by limited investments to those instruments allowed by the Act, which are described herein.

B. Risk of market price changes shall be controlled by avoiding over-concentration of assets in a specific maturity sector, limitation of average maturity of operating funds instruments to one year, and avoidance of over-concentration of assets in specific instruments other than U.S. Treasury Securities and Insured or Collateralized Certificates of Deposits.

C. Risk of illiquidity due to technical complications shall be controlled by the selection of securities as described herein.

VI. SELECTION OF BANKS AND DEALERS

Depository

Periodically, a Depository shall be selected through the City's banking services procurement process, which shall include a formal request for proposal (RFP). In selecting a depository, the credit worthiness of institutions shall be considered, and the Finance Director shall conduct a comprehensive review of prospective depositories credit characteristics and financial history.

Certificates of Deposit

Banks seeking to establish eligibility for the City's competitive certificate of deposit purchase program shall submit for review annual financial statements, evidence of federal insurance and other information as required by the Finance Director.

Securities Dealers

For brokers and dealers of government securities, the City shall select only those dealers reporting to the Market Reports Division of the Federal Reserve Board of New York, also known as the "Primary Government Security Dealer", unless a comprehensive credit and capitalization analysis reveals that other firms are adequately financed to conduct public business. Investment officials shall not knowingly conduct business with any firm with whom public entities have sustained losses on investments. All securities dealers shall provide the City with references from public entities that they are currently serving.

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

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

An annual review of the financial condition and registration of qualified bidders will be conducted by the Finance Director.

VII. SAFEKEEPING AND CUSTODY

Insurance of Collateral

All deposits and investments of City funds other than direct purchases of U.S. Treasuries or Agencies shall be secured by pledged collateral. In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be 102% of market value of principal and accrued interest on the deposits or investments less an amount insured by the FDIC or FSLIC. Evidence of the pledged collateral shall be maintained by the Finance Director or a third party financial institution. Repurchase agreements shall be documented by a specific agreement noting the collateral pledge in each agreement. Collateral shall be reviewed monthly to assure that the market value of the pledged securities is adequate.

Safekeeping Agreement

Collateral pledged to secure deposits of the City shall be held by a safekeeping institution in accordance with a Safekeeping Agreement which clearly defines the procedural steps for gaining access to the collateral should the City of Saginaw determine that the City's funds are in

jeopardy. The safekeeping institution, or Trustee, shall be the Federal Reserve Bank or an institution not affiliated with the firm pledging the collateral. The safekeeping agreement shall include the signatures of authorized representatives of the City of Saginaw, the firm pledging the collateral, and the Trustee.

Collateral Defined

The City of Saginaw shall accept the following securities as collateral:

A. FDIC and FSLIC insurance coverage.

B. A bond, certificate of indebtedness, or Treasury Note of the United States, or other evidence of indebtedness of the United States that is guaranteed as to principal and interest by the United States.

C. Obligations, the principal and interest on which, are unconditionally guaranteed or insured by the State of Texas.

D. A bond of the State of Texas or of a county, city, or other political subdivision of the State of Texas having been rated as investment grade (investment rating no less than "A" or its equivalent) by a nationally recognized rating agency.

Subject to Audit

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

Delivery vs. Payment

Treasury Bills, Notes, Bonds and Government Agencies' securities shall be purchased using the delivery vs. payment method. That is, funds shall not be wired or paid until verification has been made that the correct security was received by the Trustee. The security shall be held in the name of the City or held on behalf of the City. The Trustee's records shall assure the notation of the City's ownership of or explicit claim on the securities. The original copy of all safekeeping receipts shall be delivered to the City.

VIII. INVESTMENT POLICY ADOPTION

The City of Saginaw investment policy shall be adopted by resolution of the City Council. The policy shall be reviewed for effectiveness on an annual basis by the Investment Committee and any modifications will be recommended for approval to the City Council.

INVESTMENT POLICY FOR THE
CITY OF SAGINAW, TEXAS

TEXAS PUBLIC FUNDS INVESTMENT ACT
DEALER CERTIFICATION

This certification is executed on behalf of the City of Saginaw (the Investor) and _____ (the Dealer) pursuant to the Public Funds Investment Act, Chapter 2256, Government Code, Texas Codes Annotated (the Act) in connection with investment transactions conducted between the Investor and Dealer.

The undersigned Qualified Representative of the Dealer hereby certifies on behalf of the Dealer that:

1. The Dealer Qualified Representative is duly authorized to execute this Certification on behalf of the Dealer, and

2. The Dealer Qualified Representative has received and reviewed the Investment Policy furnished by the Investor, and

3. The Dealer has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the Dealer and the Investor that are not authorized by the entity's investment policy, except to the extent that this authorization is dependent on an analysis of the makeup of the entity's entire portfolio or requires an interpretation of subjective investment standards.

Dealer Qualified Representative

_____
Signature

_____
Name (Printed)

_____
Title

_____
Date

GLOSSARY

AGENCIES: Federal agency securities.

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.

BARBELL MATURITY STRATEGY: A maturity pattern within a portfolio in which maturities of the assets in the portfolio are concentrated in both the short and long ends of the maturity spectrum.

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. Large-denomination (over $100,000) CD's are typically negotiable.

COLLATERAL: Securities, evidence of deposit or other property which a borrower pledges to secure repayment of a loan. Also refers to securities pledged by a bank to secure deposits of public monies.

~~COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR)~~ ANNUAL COMPREHENSIVE FINANCIAL REPORT (ACFR): The official annual report for the City of Saginaw. It includes five combined statements for each individual fund and account group prepared in conformity with GAAP. It also includes supporting schedules necessary to demonstrate compliance with finance-related legal and contractual provisions, extensive introductory material, and a detailed Statistical Section.

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

DEALER: A dealer, as opposed to 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, to reduce risk inherent in particular securities.

FACE VALUE: The principal amount due and payable to a bondholder at maturity; par value. Also, the amount on which coupon interest is computed.

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 $300,000 per depositor ($100,000 for non-interest bearing demand deposits, $100,000 for interest bearing demand, savings or time deposits and a separate $100,000 for interest and sinking funds)

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 service to member commercial banks, thrift institutions, credit unions and insurance companies. The mission of the FHLBs is to liquefy the housing related asset 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-owner 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 and as 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 FMHM mortgages. The term "pass-throughs" is often used to describe Ginnie Maes.

INVESTMENT POOL: An entity created under the Government Code to invest public funds jointly on behalf of the entities that participate in the pool and whose investment objectives in order of priority are preservation and safety of principal, liquidity, and yield.

LADDERED MATURITY STRATEGY: A maturity pattern within a portfolio in which maturities of the assets in the portfolio are equally spaced.

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.

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 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.

PREMIUM: The amount by which the price paid for a security exceeds its face value.

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.

PRINCIPAL: The face or par value of an instrument, exclusive of the accrued interest.

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.

QUALIFIED REPRESENTATIVE: A person who holds a position with and is authorized to act on behalf of a business organization (as defined by the Public Funds Investment Act)

RATE OF RETURN: The yield obtainable on a security based on its purchase price or its current market price. This may be 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 COMMISION: 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, 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 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.