



THE CORPORATION OF THE CITY OF VERNON

MEMORANDUM

TO: Patti Bridal, Chief Administrative Officer **FILE:** 1690
PC: Debra Law, Director, Financial Services **DATE:** November 17, 2023
FROM: Rena Crosson, Manager, Financial Operations
SUBJECT: NEW DRAFT INVESTMENT POLICY

The Finance Committee, at its November 16, 2023 meeting, reviewed the new draft Investment Policy and endorsed the recommendation to rescind the current "Investment of City Funds" policy (Attachment 2), and adopt the new draft "Investment Policy" (Attachment 1).

The current "Investment of City Funds" policy was approved by Council in July, 2005 (Attachment 2).

A new draft Investment Policy has been created using the standard template for investment policies provided by the Municipal Finance Authority of BC (Attachment 1).

Due to the large volume of changes between the two policies, Administration is requesting Council rescind the existing policy titled "Investment of City Funds" and adopt the new policy titled "Investment Policy".

RECOMMENDATION:

THAT Council receive the memorandum titled "New Draft Investment Policy" dated November 17, 2023 and respectfully submitted by the Manager, Financial Operations,

AND FURTHER that Council approves the recommendations regarding the Investment Policy from the Finance Committee as follows:

- 1) THAT Council rescind the July 11, 2005 "Investment of City Funds" policy.
- 2) THAT Council adopt the new "Investment Policy".

Respectfully submitted:

Attachment 1: Draft Investment Policy
Attachment 2: Investment of City Funds Policy

Approved for the Agenda by the CAO



THE CORPORATION OF THE CITY OF VERNON

3400 – 30th Street, Vernon, B.C. V1T 5E6
 Telephone: (250) 545-1361 Fax: (250) 545-4048
 website: www.vernon.ca

Corporate Policy Manual

Section:	Corporate Services	
Sub-Section:	Financial Services	
Title:	Investment Policy	

RELATED POLICIES

Number	Title

APPROVALS

POLICY APPROVED BY:	AMENDMENT APPROVAL:	SECTION AMENDED
<i>Original policy only goes in this spot-nothing else</i> Approved by: Mayor: (name) Date: (date of signed policy)	<i>Amendments only go in this column with oldest date on the top-start with</i>	<i>What was amended in this column</i>
	Amendment Approved by: Mayor: (name) Date: (date of amendment)	

POLICY

1. Purpose

The purpose of the City of Vernon's Investment Policy is to provide a framework for its investment portfolio management. It is the policy of the City of Vernon to invest its funds in a manner that will provide for the optimal blend of security, risk-adjusted returns, while meeting short and long term cashflow demands in compliance with the statutory requirements of the *Community Charter* and the *Local Government Act* as applicable.

2. Scope

This Investment Policy applies to all cash and investment assets of the City of Vernon which are suitable for investment with due consideration of cashflow demands.

3. Objectives

The objectives of the investment program, in order of importance are: principal protection, liquidity, and return on investment.

3.1 Principal Protection

Investments shall be made to ensure preservation of capital within the portfolio. Preservation of capital is accomplished through the placement of funds with creditworthy institutions and through portfolio diversification. Diversification is required to minimize potential losses on individual securities and to limit concentration and other associated risks.

3.2 Liquidity

The investment portfolio shall remain sufficiently liquid to meet all operating and reasonably anticipated cash flow requirements. This will be accomplished by selecting maturity dates that correspond to short- and long-term cash flow requirements, and securities with active or secondary resale markets where appropriate.

3.3 Return on Investment

Return on investment (ROI) shall be maximized in the context of the requirements to preserve capital and manage liquidity, while adhering to the investment constraints of the *Community Charter* and this Policy.

4. Standard of Care

4.1 Prudence

Investments shall be made with professional judgement and care with a significant level of due diligence. The objectives of principal protection, liquidity management, and risk-adjusted returns are integral to the successful stewardship of the City's investment portfolio. Speculative activities are prohibited. Staff must be aware of foreseeable risks, trends and fluctuations in the market that may affect the investment portfolio.

4.2 Ethics and Conflict of Interest

Staff involved with the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or may impair their ability to make impartial decisions. Any potential conflict of interest must be disclosed to management and will be considered on a case-by-case basis.

4.3 Delegation of Authority

Authority to manage the City of Vernon's investment program is granted to the City's Chief Financial Officer and is derived from section 149 of the *Community Charter* as follows:

Section 149: One of the municipal officer positions must be assigned the responsibility of financial administration, which includes the following powers, duties and functions: (c) investing municipal funds, until required, in authorized investments.

5. Authorized Investments

Section 183 of the *Community Charter* indicates:

Money held by a municipality that is not immediately required may only be invested or reinvested in one or more of the following:

- (a) securities of the Municipal Finance Authority;*
- (b) pooled investment funds under section 16 of the Municipal Finance Authority Act;*
- (c) securities of Canada or of a province;*
- (d) securities guaranteed for principal and interest by Canada or by a province;*
- (e) securities of a municipality, regional district or greater board;*
- (f) investments guaranteed by a chartered bank;*
- (g) deposits in a savings institution, or non-equity or membership shares of a credit union;*
- (h) other investments specifically authorized under this or another Act.*

Eligible cash may be invested in accordance with section 183 of the *Community Charter*, subject to the following conditions:

5.1 Investment Denomination

Investments shall only be denominated in Canadian dollars.

5.2 Portfolio Limitations

The following two tables outline the limitations imposed by this Policy on the universe of investments available to the City of Vernon. The portfolio constraints, targeting credit ratings and exposure to assets classes, rank equal and are to be managed synchronously.

5.2.1. Portfolio Limits by Credit Rating

Credit Rating [1]	Maximum % Share of Total Reserves
AA- or higher [short-term rating R-1 (mid) or higher]	100%
A+/A/A- [short-term rating R-1 (low)]	75%
BBB+/BBB/BBB- or Unrated [short-term rating R-2 (high) or lower]	25%

[1] Subject to 5.3.

5.2.2 Portfolio Limits by Asset Type

Asset Type	Maximum % Share of Total Reserves	Maximum Single Entity % of Total Reserves	Maximum Term
MFA Pooled Investment Funds	15 - 100% [2]	N/A	366 days to 11 years [2]
Federal Government [1]	Up to 100%	Up to 100%	50 years
Provincial Governments [1]	Up to 100%	25% to 75% [3]	20 to 30 years [3]
Securities of the MFA [1] [6]	Up to 25%	20% to 25% [3]	20 to 30 years [3]
Local Governments [1]	Up to 50%	10% to 25% [3]	5 to 25 years [3]
Financial Institutions [1]	Up to 50% [5]	10% to 15% [3][4]	5 to 10 years [3]

[1] Weighted holdings of this type of security within a Pooled Fund does not count towards limit.

[2] Range based on Pooled Fund type. These ranges are in reference to the limits imposed on each Fund by MFA for assets each hold. MFA's DMAC Fund can hold assets of any maturity. MFA Funds may be held in perpetuity by the unitholder.

[3] Ranged based on Credit Rating.

[4] Total investments in securities of a chartered bank, savings institution, or credit union may not exceed 1.00% of the financial institution's last year-end reported total deposits.

[5] Short-term portfolio funds (cash needed within 1 year) may be 100% held within Financial Institutions, but subject to Single Entity limits. Further, from time-to-time Single Entity limits may be exceeded per 5.4.

[6] Refers to debt issued by the Municipal Finance Authority of BC.

5.3 Credit Ratings

Credit ratings shall be obtained from "Recognized Ratings Agencies" defined as: Moody's Investors Service (Moody's), Standard & Poor's (S&P), Fitch Ratings (Fitch), and DBRS Morningstar (DBRS).

5.3.1 Credit Ratings Equivalency

Credit Ratings within this Policy are quoted using S&P's long-term scale and DBRS's short-term scale. Equivalent credit ratings from other Recognized Ratings Agencies apply to 5.2.1, 5.2.2, and 5.5. A Ratings Equivalency Chart is provided in Appendix A.

5.4 Adherence to Limits

Total securities, of all types, of a single entity shall not normally exceed the limits outlined in 5.2.2. However, as market and operational (e.g. tax collection) fluctuations may cause aggregate holdings of a single entity to exceed applicable thresholds, the City of Vernon is not obliged to sell securities with immediacy to remain in compliance with this Policy. Rather, the portfolio must be rebalanced when it is most prudent to do so in any manner deemed appropriate.

5.5 Split Ratings

If an issuer or security is rated by more than one Recognized Ratings Agency, the following methodology shall apply:

- If two Agencies rate a security, use the lower of the two ratings;
- If three Agencies rate a security, use the most common;
- If all three Agencies disagree, use the middle rating; and
- If four Agencies disagree, use the average of all four ratings.

5.6 Unrated Securities

If an authorized investment per section 183 of the *Community Charter* is unrated and an internal credit rating has not been determined, it shall be rated as BBB for the purposes of determining adherence to this Policy.

5.8 Long-term Portfolio (10 years+)

After first ensuring adequate short & mid-term liquidity, if the Chief Financial Officer identifies monies not needed for 10 years or longer they may request Council acknowledge those monies as “long-term: 10 years+” and suitable for investments with long investment horizons. If funds have been designated as “long-term: 10 years+” the Chief Financial Officer may invest those monies in:

- Any MFA Pooled Investment Fund created specifically for investment of long-term reserves; or
- Section 183 investments with a minimum long-term credit rating of A-.

5.9 Unlisted Investments

Investment opportunities not expressly outlined in this Policy, but compliant with applicable legislation may be brought forward by the Chief Financial Officer with an accompanying report to the Finance Committee to discuss its merits. If deemed

appropriate by the Finance Committee, the Chief Financial Officer may proceed with the investment.

6. Investment Parameters

6.1 Diversification

It is the Policy of the City of Vernon to diversify its investment portfolio. To reduce the risk of loss resulting from overconcentration of assets in a specific maturity, issuer, or class of securities, all cash and cash equivalents in all funds shall be diversified by maturity, issuer, and security type. Diversification strategies shall be determined and revised periodically by the Chief Financial Officer.

6.2 Maturity

To the extent possible, the City of Vernon shall attempt to match the maturity of its investments with anticipated cashflow requirements. Due to the imprecise nature of forecasting cashflow needs, a portion of the investment portfolio shall be continuously invested in short-dated securities. Investments in longer-dated securities that may be less-liquid requires certainty from the Chief Financial Officer that those funds will not be needed until after those long-dated securities mature.

7. Competitive Bids

When possible, the City of Vernon will obtain quotes for the purchase of selected investments to ensure the most cost-effective alternative is selected. However, due to the time-sensitive nature of the marketplace, immediate action may be taken. Under such circumstances, market data may be used to substantiate the action taken.

8. Safekeeping and Custody

8.1 Delivery vs. Payment, Safekeeping

All securities purchased by the City of Vernon shall be held in the name of the City of Vernon. All security transactions shall be conducted on a delivery versus payment basis. The Chief Financial Officer must be satisfied that the security is rightfully in possession of the City of Vernon or by a custodial service.

8.2 Internal Controls

The Chief Financial Officer shall establish a system of internal controls, to be documented in writing. As part of the annual audit, a review by the external auditor will be done to assure compliance with internal controls and policy

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 officers of the City of Vernon.

9. Policy Review

This Policy shall be reviewed periodically by the Chief Financial Officer to ensure it meets current regulatory requirements and industry best practices.

10. Reporting

The Chief Financial Officer will provide Council with a report on the current state and performance of the investment portfolio on an annual basis.

Appendix A: Credit Rating Equivalency Chart

Credit Quality	S&P		Moody's		DBRS		Fitch	
	Long-term	Canadian CP Scale (Short-term)	Long-term	Short-term	Long-term	Short-Term	Long-term	Short-Term
Superior	AAA	A-1 (high)	Aaa	p-1	AAA	R-1 (high)	AAA	F1+
	AA+	A-1 (high)	Aa1	p-1	AA (high)	R-1 (high)	AA+	F1+
	AA	A-1 (high)	Aa2	p-1	AA	R-1 (mid)	AA	F1+
	AA-	A-1 (high)	Aa3	p-1	AA (low)	R-1 (mid)	AA-	F1+
Good	A+	A-1 (mid)	A1	p-1	A (high)	R-1 (low)	A+	F1
	A	A-1 (mid)	A2	p-1	A	R-1 (low)	A	F1
	A-	A-1 (low)	A3	p-2	A (low)	R-1 (low)	A-	F2
Adequate	BBB+	A-1 (low)	Baa1	p-2	BBB (high)	R-2 (high)	BBB+	F2
	BBB	A-2	Baa2	p-2	BBB	R-2 (mid)	BBB	F3
	BBB-	A-3	Baa3	p-3	BBB (low)	R-2 (low), R-3	BBB-	F3
Speculative	BB+	B	Ba1	Not Prime	BB (high)	R-4	BB+	B
	BB	B	Ba2	Not Prime	BB	R-4	BB	B
	BB-	B	Ba3	Not Prime	BB (low)	R-4	BB-	B
Highly Speculative	B+	C	B1	Not Prime	B (high)	R-4	B+	B
	B	C	B2	Not Prime	B	R-5	B	B
	B-	C	B3	Not Prime	B (low)	R-5	B-	B
	CCC	C	Caa	Not Prime	CCC	R-5	CCC	C



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 3400 – 30th Street, Vernon, B.C. V1T 5E6
 Telephone: (250) 545-1361 Fax: (250) 545-4048
 website: www.vernon..ca

Corporate Policy Manual

Section:	Corporate Services	
Sub-Section:	Finance	
Title:	Investment of City Funds	

RELATED POLICIES

Number	Title

APPROVALS

POLICY APPROVAL:	AMENDMENT APPROVAL:	SECTION AMENDED
Approved by:	Amendment Approved by:	
Acting Mayor:	Mayor:	
Date: July 11, 2005 <i>D. J. [Signature]</i>	Date:	

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POLICY

Recognizing there is a financial benefit the City, City Council has established guidelines governing the investment of the City's available cash which may be invested for both short and long terms.

SCOPE

These policy guidelines are applicable to all funds managed by the City.

The amount and term for operating fund investments will be determined by the projected cash flow requirements of the City for the current and ensuing years. Capital and reserve fund investments will be guided by Capital Program needs.

INVESTMENT GUIDELINES

1) Investment Priorities

Investments managed by the City will be invested in accordance with the management principles contained herein and shall conform with the Community Charter. Reference should be made to the Ministry of Community Aboriginal and Women's Services Guidelines.

The criteria for municipal investments are:

- The preservation of capital;
 - To ensure the City's liquidity requirements; and,
 - Achievement of maximum returns given the conditions as noted in this policy.
-

2) Prudence

Investments shall be made with judgment and care, under circumstances prevailing, and with prudence and discretion and not for speculation, but for investment considering the rise/return relationship of each security.

3) Scope of Investments

Subject to the annual and long-term cash flow requirements and the balances of the operating fund surplus and operating reserves of the City, Operating Fund investments will generally be limited to securities with a maturity of 12 months or less. Capital and Reserve Fund transactions may, subject to the funding requirements as noted in the 5-

Year financial Plan bylaw, be invested for up to 10 years. The investments will generally be made with the intention of holding the security to maturity and will be timed to account for conservative cash flow projections.

This investment policy strictly prohibits the City from engaging in any investment activity that would be considered speculative according to the generally accepted principles of conservative investment management.

4) Investment Group

The City's investment portfolio and adherence to this policy will be managed and monitored by a Staff Investment Group that consists of:

- The Administrator,
- The General Manager, Community Services,
- The General Manager, Corporate Services; and
- The Manager of Finance.

The City Administrator is the chairman of the Group.

The Investment Officer shall be the Manager, Finance. Investments shall only be co-authorized by any two of: the Investment Officer, the General Manager, Corporate Services, the Manager of Finance, the Senior Accountant, the City Administrator or other individual designated from time to time by the General Manager, Corporate Services.

The Investment Group will meet within one month after each calendar quarter to review the investment performance of the portfolio, to review the proposed investment strategy over the near-term and long-term, review changes in credit ratings and to reconfirm the Investment Limits as noted in Section 5 and any other potential investment issues.

5) Application

Option 1 – Except for overnight deposits, the City shall solicit competitive verbal quotations for the purchase and sale of securities when it is prudent to do so. This policy recognizes that from time to time, offerings of value may require immediate action. Under such circumstances, competitive bids may not be sought provided that value can be substantiated by market data information. The selection of investments will depend upon the overall investment criteria in #1 above, the security, term, cash flow, and interest rates offered as well as considering the limits in #8 below. The investment selected will not necessarily be based on the highest return/lowest cost. A variety of brokers should be used as much as is practical.

Competitive bids received verbally must be recorded and such documentation retained for two audited years. This policy is to protect Municipal Officials and to ensure adequate audit information.

Option 2 – Alternately, the Investment Group may elect to assign a portion or all of the management of the City's investments to a specific institution, the External Investment Manager, such as the City's principal bankers or an Investment Management firm. That being the case, the requirement for different brokers and for competitive bids noted in the previous two paragraphs would be suspended. An agreement letter will cover the terms and conditions of this arrangement.

Authorized brokers or the External Investment Manager will be issued a copy of this document and shall acknowledge in writing the receipt and willingness to comply with the conditions of Appendix I.

Diversification of investments over a number of different issuers is a desirable objective of the management of the City's investment portfolio, to reduce risk exposure.

6) Permissible Investments

Section 183 of the Community Charter sets out permissible investments as follows:

"Money held by a municipality that is not immediately required may only be invested or reinvested in one or more of the following:

- a) securities of the Municipal Finance Authority;
- b) pooled investment funds under section 16 of the Municipal Finance Authority Act;
- c) securities of Canada or of a province;
- d) securities guaranteed for principal and interest by Canada or by a province;
- e) securities of a municipality, regional district or greater board;
- f) investments guaranteed by a chartered bank;
- g) deposits in a savings institution, or no-equity or membership shares of a credit union;
- h) other investments specifically authorized under this or another Act."

7) Repurchase Agreements

Repurchase agreements are not a permissible investment.

8) Investment Limits

Investments will reflect the credit worthiness of the institution. The standard for investment in non-government guaranteed securities is the City's principal banker's

DBRS (Dominion Bond Rating Services) credit rating for short-term and long-term investments (currently R1M/AA respectively). The purchase of any securities carrying a credit rating below that of the City's principal banker shall only be as permitted in this policy. These lower credit quality investments are subject to greater restrictions, i.e., lower group maximums, shorter duration and for smaller amounts. The purchase of any non-related securities or other securities carrying a credit rating below those as noted in this section is strictly prohibited.

Should an issuer's credit rating be downgraded while the City holds the investment, it shall be at the discretion of the Investment Group as to its disposition.

Investments in the Combined Operating and Capital/Reserve Fund Portfolios are to be of appropriate credit quality and may be made subject to the following limits.

NB: When the value of the portfolio is below \$15 million in the fund prior to the investment, the percentage limits will not be applicable and the maximum dollar value will apply. The percentage and dollar limits are at the time of purchase only. Should the market value or the maturity value be in excess of the limits, there is no requirement to dispose of the excess investment.

(Note: These limits may be marginally exceeded for strategic reasons with approval of the Investment Group and be noted in the Quarterly Reports).

ISSUER SECTOR	MAXIMUM	MAXIMUM
	% OF PORTFOLIO	DOLLAR VALUE
PER GROUP		
Federal & Provincial Governments or Agencies (Note: Minimum 10% of portfolio in Federal at all times for liquidity)	100%	\$45 million
Municipal Finance Authority	100%	\$45 million
Canadian Chartered Bank	60%	\$25 million
Canadian Credit Union – DBRS rated	25%	\$5 million

CREDIT QUALITY – INDIVIDUAL ISSUERS	PER ISSUER	
Government of Canada or Agencies	75%	\$35 million
Provinces – R1M/AA or better	40%	\$25 million
Provinces – R1L/A	25%	\$10 million
Municipality, Regional District & GVWD	40%	\$15 million
Provinces – R2H/BBB	15%	\$2 million
Municipal Finance Authority	100%	\$25 million
Chartered Banks – R1H/AAA	25%	\$10 million
Chartered Banks – R1M/AA	15%	\$5 million
Credit Unions – R1M/AA	15%	\$3 million

Maturity of investments shall be based on projected operating cash flow requirements and capital planning requirements, but conservative to ensure liquidity.

9) Approved Names

A list of approved short and long-term debt financial instrument issuers will be determined and kept and all investments shall be limited to the names on the list. The credit standing of each of the issuers on this list will be reviewed quarterly or more often if necessary. The City requires that when there has been a change in credit status with product bought from a broker or the Investment Manager, that the broker or Investment Manager advises the investment officer of this change.

10) Payment and Safekeeping

The City should not directly receive physical delivery of any investment security. Securities are booked based and may remain with the Central Depository Service, the City's principal broker/agent or other Trustee, providing proof of segregation is received by the Investment Officer from the broker/agent. The broker/agent shall conduct transactions authorized verbally, and be followed by written confirmation per standard investment industry regulations.

Should the City appoint an External Investment Manger, specific provisions for payment and safekeeping shall be provided for.

An exception to this safekeeping procedure is investments placed through the MFA pooled investment funds. Both telephone and written instructions are required for all purchases whereas written instructions only are required for redemptions. Funds are transferred to and from the City's bank from and to the trustee. Written confirmations are provided for all transactions.

These policies are designed to protect municipal assets.

11) Co-Mingled Funds

Quarterly investments may be made in the pooled investment funds of the Municipal Finance Authority: Money Market, Intermediate and Bond Funds – which are currently managed by CIBC Mellon Trust, provided that the Safety, Liquidity, and Yield characteristics of the fund are consistent with or better than alternative money market strategies approved pursuant to these guidelines.

12) Reporting

Quarterly investment reports shall be prepared for and distributed to the Investment Group and City Administrator. The City Council will be provided with an annual summary report.

13) Relief from Personal Responsibility

Individuals acting in accordance with written procedures and within the guidelines of this policy and exercising due diligence shall be relieved of personal responsibility for an individual issuer'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 in credit risk change.

14) Policy Review

This policy shall be reviewed and amended as necessary every three years or more frequently as required to ensure that it remains consistent with the overall objectives of the City of Vernon and with current prudent investment practices.

APPENDIX I
Agent/Broker Agreement
TERMS AND CONDITIONS OF AGENT/BROKER AGREEMENT FOR SECURITIES
SERVICE

BETWEEN:

THE CORPORATION OF THE CITY OF VERNON

AND:

(name and address of agent/broker)

The Agent/Broker acknowledges the receipt of this policy and agrees to the following terms and conditions:

1. That the Agent/Broker will only enter into security transactions with either the General Manager of Corporate Services, the Manager of Finance, the Senior Accountant, City Administrator, or other individual as designated in writing by the General Manager of Corporate Services.
2. That the Agent/Broker will only offer securities as limited under Section 183 of the Community Charter and as outlined in Section 6 of this policy.
3. That the Agent/Broker will only offer securities that meet the following credit quality criteria:
 - Government of Canada or Agencies
 - Provinces with a DBRS rating of R2H/BBB or better
 - Canadian Chartered Banks with a DBRS rating of R1M/AA or better
 - Canadian Credit Unions with a DBRS rating of R1M/AA or better
4. That the Agent/Broker will immediately advise the Investment Officer of any changes in the credit quality of securities which the Agent/Broker has sold the Municipality and for which the maturity date has not occurred.
5. That all transactions shall be followed by written confirmation per standard investment industry regulations.
6. That the Agent/Broker will not deliver physical paper of the security to the city without written authority. Book based securities may remain with the Central depository Service or other Trustee, providing proof of segregation is received by the Investment Officer from the broker.
7. On behalf of _____ (Agent/Broker),

I understand and agree to the above terms and conditions:

Name and Position: _____,

Signature: _____, Date: _____.

APPENDIX II Definitions

BANKERS ACCEPTANCE: An investment that is a commercial draft drawn by a borrower for payment on a specified date and accepted, or guaranteed, by the borrower's bank. The banks acceptance is signified by a counter signature or the draft. Once a draft of this nature has been co-signed, it becomes a Bankers Acceptance and is backed by the credit of the accepting bank. These instruments are actively and openly traded in the money markets and as a result are extremely liquid.

BOND: An IOU from the borrower to the lender. It refers to any interest bearing government or corporate security that obligates the issuer to pay a particular sum of money at specified intervals and to repay the principal amount of the loan upon maturity. A secured bond is backed by collateral that may be sold by the bondholder if the bond issuer fails to pay interest and principal as due. A debenture or unsecured bond is not backed by any specific collateral.

CALLABLE SECURITIES: Securities redeemable by issuer prior to the scheduled maturity date.

CENTRAL DEPOSITORY FOR SECURITIES (CDS): A national clearing house for securities trading owned by the major banks, investment dealers and trust companies. CDS is regulated directly by the Provincial Securities Commissions and indirectly through the Federal regulations of Financial Institutions. It manages the recordings and clearing of Canadian stocks, bonds, and coupons on a book basis. The physical securities are stored in vaults of CDS and the Bank of Canada.

COLLATERAL: Asset pledged to a lender as security for a loan.

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

ISSUER EXTENDIBLE NOTES: Differ from traditional fixed income investments such as bonds and GIC's in that there is a greater level of uncertainty as to the maturity date, and the income received may vary according to a predetermined schedule. For example, a note may have:

- An initial term to maturity of 1 year and might be extendible by the issuer on a year-by-year basis up to 10 years.
- In addition the interest paid or coupon may rise over time if the maturity date of the note is extended.
- Generally issued by governments, federal agencies or high grade corporations (such as schedule I Canadian Banks) with strong credit ratings.

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 the bid and asked price is narrow and a holding of reasonable size can be sold at those quotes.

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

MONEY MARKET: The market in which short-term (one year or less) debt instruments (treasury bills, commercial paper, bankers acceptances, etc.) are issued and traded.

OVERNIGHT TRANSACTION: An investment of funds maturing on City's next business day. May take the form of a term deposit with a bank or credit union, or may take the form of a repurchase agreement.

PORTFOLIO: Collection of securities held by an investor.

RATING: Evaluation of the likelihood of default by a security issuer. Canada Bond Rating Service and Dominion Bond Rating Service are the primary bond and money market security rating agencies in Canada. Standard and Poors, and Moody's Investor Service are American bond rating firms that also rate Canadian issuers.

REPURCHASE AGREEMENT: 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. Investment dealers use repurchase agreements extensively to finance their positions.

SAFEKEEPING: A service to customers rendered by banks for a fee whereby securities and valuables 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.

STEP-UP NOTES (a subtype of Issuer Extendible Notes): Step-up notes feature coupon rates that increase over time according to a pre-determined schedule. Generally, the issuer has the option of extending the maturity beyond its initial maturity date (usually in one-year increments) at a higher coupon rate. For example, an issue might have an initial term to maturity of 2 years, extendible to 10 years. The initial coupon may be 5.00% which rises to 5.25% if extended at the first maturity date, 5.50% if extended to the third maturity date and so on. Investors often find this feature attractive as the rising coupon rates offset some of the risk posed by a potential increase in interest rates.

YIELD: The rate of annual income return on an investment, expressed as a percentage. (a) **COUPON YIELD** is the rate of the annual payments to the lender expressed as a percentage of the par value of the security. (b) **YIELD TO MATURITY** is the interest rate that will make the present value of future cash flows from a security equal to the current price or market value of the security.