

**CITY OF MILLBRAE, COUNTY OF SAN MATEO
STATE OF CALIFORNIA**

**JOINT RESOLUTION OF THE CITY OF MILLBRAE AND THE MILLBRAE
REDEVELOPMENT AGENCY ADOPTING THE INVESTMENT POLICY AND
DESIGNATE THE CITY MANAGER THE RESPONSIBILITY TO SERVE AS THE
CITY TREASURER / INVESTMENT OFFICER**

WHEREAS, in accordance with Section 53607, et. seq., of the Government Code of the State of California, the legislative body may delegate the City Treasurer to serve as the Investment Officer; and,

WHEREAS, in accordance with Section 53646, et. seq., of the Government Code of the State of California, the City Treasurer for the City of Millbrae, may annually render to the City's Legislative body a statement of its investment policy; and,

WHEREAS, the Investment Officer is hereby authorized (a) to invest such portion of any sinking fund of, or idle money in, the Treasury of the City or Agency, not required for the immediate necessities of either agency as is deemed wise or expedient, in securities in which this Council is authorized to invest such sums by the provisions of California State Government Code Section 53061 and Section 53635, et. seq., limited by the City's Investment Policy; and (b) to sell or exchange for other eligible securities, and reinvest the proceeds of the securities purchased; and

WHEREAS, as part of best practice and sound financial management the City Treasurer will continue to submit an annual investment policy to the City's Legislative body;

NOW, THEREFORE BE IT RESOLVED THAT THE CITY COUNCIL OF THE CITY OF MILLBRAE AND THE MILLBRAE REDEVELOPMENT AGENCY do hereby adopt the Investment Policy set forth in the attached document, and delegate the City Manager, to serve as the City Treasurer / Investment Officer.

REGULARLY PASSED AND ADOPTED this 09 day of February, 2010.



Mayor/Chair

ATTEST:


City Clerk/Secretary

Resolution 10-07
RDA Resolution 10-01

I do hereby certify that the foregoing Resolution was duly and regularly passed and adopted by the City Council and Redevelopment Agency of the City of Millbrae this 9th day of February, by the following vote:

AYES: COUNCIL/AGENCY MEMBERS: Seto, Quigg, Colapietro, Papan, and Holober

NOES: COUNCIL/AGENCY MEMBERS: None

ABSENT: COUNCIL/AGENCY MEMBERS: None

ABSTAIN: COUNCIL/AGENCY MEMBERS: None

EXCUSED: COUNCIL/AGENCY MEMBERS: None


CITY CLERK/SECRETARY

CITY OF MILLBRAE		
ADMINISTRATIVE STANDARD PROCEDURES	Number: 1 Revision:	Page: 1 of 13 Supersedes:
Subject: CITY OF MILLBRAE INVESTMENT POLICY	Approved by: City Council	Effective Date: December 1, 1996 Modified: February 09, 2010

I. Governing Authority

Legality

The investment program shall be operated in conformance with all Federal, and State legal requirements, and in accordance with the State of California Government Code Sections 53600-53686.

Delegation Authority to manage the investment program is granted to the City Manager (hereinafter may be referred to as the Investment Officer) for the City of Millbrae. The City Manager shall assume responsibility for the function of City Treasurer / Investment Officer and the manner in which it will be performed. The City Manager shall be authorized to appoint the city officer, employee, or some combination thereof, to carry out such duties in full accordance with applicable city rules and regulations. The City Manager and/or his/her designee is granted full authority and responsibility by the City Council for the purchase, sale, assignment, exchange and transfer of securities and for the safe custody of security holdings, subject to Council policies, rules, regulations and directives consistent with regulatory and statutory limitations. The City Manager and/or his/her designee is granted the authority to invest both the City and Redevelopment Agency's funds and perform the required investment transactions to comply with this policy. The City Manager and/or his/her designee shall consult with the Finance Director prior to the investment or re-investment of both the City and Redevelopment Agency's funds in order to ensure the provisions of the policy are met, and that adequate liquidity is maintained for the daily operation of the City and Redevelopment Agency. During the absence of the City Manager and/or his/her designee, the Finance Director shall perform the investment functions.

This Investment Policy is now amended and adopted as of February 09, 2010 and will serve as the City of Millbrae's Investment Policy for fiscal year 2009-2010 and until further revised. By approval of this Investment Policy the City Council extends the authority and responsibility to the City Manager to invest or to reinvest the City's and the Redevelopment Agency's funds, or to sell or exchange securities so purchased, in consultation with the Finance Director and as provided by State of California Government Code Section 53607.

II. Scope

The Investment Policy applies to the funds within the City of Millbrae and the City of Millbrae Redevelopment Agency (the "City Investment Portfolio"). As specified in the State of California Government Code, the proceeds of notes, bond issues or similar financings including, but not limited to reserve funds, project funds, debt service funds and capital trust funds derived from such financings, are not governed by this Investment Policy, but rather shall be invested pursuant to their respective bond or trust indentures; Federal or State statutes explicitly applicable to such funds; or the State of California Government Code 53600, as applicable.

Pooling of Funds

Except for cash in certain restricted and special funds, the City of Millbrae will consolidate cash and reserve balances from all funds to maximize investment earnings and to increase efficiencies with regard to investment pricing, safekeeping and administration. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

III. General Objectives

The primary objectives, in priority order, of investment activities shall be Safety, Liquidity, and Yield:

1. Safety

Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure 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 Millbrae will minimize credit risk, which is the risk of loss due to the failure of the security issuer or backer, by:

- Limiting investments to the types of securities listed in Section VII of this Investment Policy
- Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which the City of Millbrae will do business in accordance with Section V
- 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 Millbrae will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by:

- Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity
- Investing funds primarily in shorter-term securities, money market mutual funds, or similar investment pools and limiting the average maturity of the portfolio in accordance with this policy (see section VIII).

2. Liquidity

The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash requirements 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 same day liquidity for short-term funds.

3. Yield

The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity requirements. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. The core of 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
- A security swap would improve the quality, yield, or target duration in the portfolio
- Liquidity needs of the portfolio require that the security be sold

IV. Standards of Care

1. Prudence

The standard of prudence to be used by investment officials shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and this investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and the liquidity and the sale of securities are carried out in accordance with the terms of this policy.

The "prudent person" standard states that, "Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived."

2. Ethics and Conflicts of Interest

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the City of Millbrae.

V. Authorized Financial Institutions, Depositories, and Broker/Dealers

1. Authorized Financial Institutions, Depositories, and Broker/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 (e.g., a minimum capital requirement of \$10,000,000 and at least five years of operation). 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 must supply the following as appropriate:

- Audited financial statements demonstrating compliance with Federal and State capital adequacy guidelines
- Proof of National Association of Securities Dealers (NASD) certification (not applicable to Certificate of Deposit counterparties)

- Proof of State registration
- Completed broker/dealer questionnaire (not applicable to Certificate of Deposit counterparties)
- Certification of having read and understood and agreeing to comply with the City of Millbrae investment policy
- Evidence of adequate insurance coverage

No broker, brokerage, dealer or securities firm can be on the approved list that has, within any consecutive 48-month period, made a political contribution to the elected member of the City Council, or any candidate for those offices.

An annual review of the financial condition and registration of all qualified financial institutions and broker/dealers will be conducted by the Investment Officer.

If a financial institution, represented in the portfolio is downgraded by any of the major rating services, to a rating below those established in this investment policy, the Investment Officer must immediately make an informed decision as to the disposition of the asset and will so advise the City Council. The situation will be monitored daily by the Investment Officer until final disposition has been made.

2. Minority and Community Financial Institutions

From time to time, the Investment Officer may choose to invest in instruments offered by minority and/or community financial institutions. In such situations, a waiver to certain parts of the criteria under Paragraph 1 may be granted. These types of investment purchases must be approved by the City Council in advance. All terms and relationships must be fully disclosed prior to the purchase and will be reported to the City Council on a consistent basis.

VI. Safekeeping and Custody

1. Delivery vs. Payment

All trades of marketable securities will be executed by delivery vs. payment (DVP) to ensure that securities are deposited in an eligible financial institution prior to the release of funds.

2. Safekeeping

Securities will be held by a [centralized] independent third-party custodian selected by the City of Millbrae as evidenced by safekeeping receipts in the City of Millbrae's name. The safekeeping institution shall annually provide a copy of their most recent report on internal controls (Statement of Auditing Standards No.70, or SAS 70).

3. Internal Controls

The Investment Officer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City of Millbrae are protected from loss, theft or misuse. Details of the internal controls system shall be documented in an investment procedures manual and shall be reviewed and updated annually. 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.

The internal controls structure shall address the following points:

- Control of collusion

- Separation of transaction authority from accounting and recordkeeping
- Custodial safekeeping
- Avoidance of physical delivery securities
- Clear delegation of authority to subordinate staff members
- Written confirmation of transactions for investments and wire transfers
- Authorizations for wire transfers
- Development of a wire transfer agreement with the lead bank and third-party custodian

Accordingly, the Investment Officer shall establish a process for an annual independent review by an external auditor to assure compliance with policies and procedures or alternatively, compliance should be assured through the City of Millbrae's annual independent audit.

VII. Suitable and Authorized Investments

The City is empowered by statute (California Government Code Section 53600 et seq. and Section 5922[d]) to invest in the following types of securities

1. Investment Types

The following securities are permissible investments pursuant to California Government Code Section 53601 as well as this Investment Policy. Any other investment not specified hereunder shall be made only upon prior approval by the City Council.

- Local government investment pools either state-administered or developed through joint powers statutes and other intergovernmental agreement legislation;
- U.S. Treasury obligations which carry the full faith and credit guarantee of the United States government and are considered to be the most secure instruments available;
- U.S. government agency and instrumentality obligations that have a liquid market with a readily determinable market value;
- Certificates of deposit and other evidences of deposit at financial institutions;
- Bankers' acceptances;
- Commercial paper, rated in the highest tier (e.g., A-1, P-1, F-1, or D-1 or higher) by a nationally recognized rating agency;
- Investment-grade obligations of state, and local governments and public authorities; and
- Money Market Mutual Funds are eligible for investment if the companies providing the mutual funds invest only in instruments authorized by Government Code, Sections 53601 and/or 53635. Such companies shall have attained either the highest ranking or the highest letter and numerical rating provided by not less than two of the three largest nationally recognized rating services, or retain an investment advisor registered with the Securities and Exchange Commission with not less than five (5) years experience investing in securities and obligations authorized and with assets under management in excess of five hundred million dollars (\$500,000,000.00). The purchase price of the share of beneficial interest shall not include any commission that these companies charge.

2. Ineligible Investments – Prohibited

Ineligible Investments include securities not listed above, as well as inverse floaters, range notes, interest only strips derived from a pool of mortgages (collateralized mortgage obligations), and any security that could result in zero interest accrual if held to maturity, as specified in the State of California Government Code Section 53601.6.

3. *Collateralization*

Investments in time certificates of deposits shall be fully insured up to \$250,000 by the Federal Deposit Insurance Corporation or the Federal Savings & Loan Insurance Corporation, as appropriate.

Investments in time certificate of deposits in excess of \$250,000 shall be properly collateralized. Section 53652 of the State of California Government Code requires that the depository pledge securities with a market value of at least ten percent in excess of the City's deposit as collateral in government securities, and fifty percent in excess of the deposit as collateral in mortgage pools. Section 53649 of the State of California Government Code specifies that the City Treasurer is responsible for entering into deposit contracts with each depository. Investments held with Third Parties holding collateral for the investment shall be properly collateralized in accordance with collateralization requirements of the State of California Government Code.

4. *Legislative Changes*

Any State of California legislative action, that further restricts allowable maturities, investment type or percentage allocations, will be incorporated into the Investment Policy and supersede any and all previous applicable language.

III. Investment Parameters

1. *Diversification*

The investments shall be diversified by:

- Limiting investments to avoid overconcentration in securities from a specific issuer or business sector (excluding U.S. Treasury securities),
- Limiting investment in securities that have higher credit risks,
- Investing in securities with varying maturities, and
- Continuously investing a portion of the portfolio in readily available funds such as the State of California Local Agency Investment Pool (LAIF), San Mateo County Pool Investment Fund, and money market funds to ensure that appropriate liquidity is maintained in order to meet ongoing obligations.

2. *Maximum Maturities*

To the extent possible, the City of Millbrae shall attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the City of Millbrae will not directly invest in securities maturing more than five (5) years from the date of purchase or in accordance with Federal, State and local statutes and ordinances. The City of Millbrae shall adopt weighted average maturity limitations (which often range from 90 days to 3 years), consistent with the investment objectives.

Reserve funds and other funds with longer-term investment horizons may be invested in securities exceeding five (5) years if the maturities of such investments are made to coincide as nearly as practicable with the expected use of funds. The intent to invest in securities with longer maturities shall be disclosed in writing to the City Council and must be approved by the City Council.

Due to the inherent difficulties in accurately forecasting cash flow requirements, a portion of the portfolio should be continuously invested in readily available funds such as local government investment pools, and money market funds, to ensure that appropriate liquidity is maintained to meet ongoing obligations.

3. Competitive Bids

The Investment Officer shall obtain competitive bids from at least two brokers or financial institutions on all purchases of investment instruments purchased on the secondary market.

IX. Reporting

1. Methods

The Investment Officer shall prepare an investment report at least quarterly including a management summary that provides an analysis of the status of the current investment portfolio. This management summary will be prepared in a manner, which will allow the City of Millbrae to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report will be provided to the City Council and will include the following:

- Listing of individual securities held at each depository at the end of the reporting period;
- Realized and unrealized gains or losses resulting from appreciation or depreciation by listing the cost and market value of securities over one-year duration that are not intended to be held until maturity (in accordance with Governmental Accounting Standards Board (GASB) requirements);
- Percentage of the total portfolio which each type of investment represents;
- Statement that the portfolio complies with the Investment Policy or the manner in which the portfolio is not in compliance; and
- Statement that the City has the ability to meet its pooled expenditure requirements (cash flow) for the next six months or provide an explanation as to why sufficient money shall or may not be available.

X. Policy Considerations

1. Exemption

Any investment currently held that does not meet the guidelines of this policy shall be exempted from the requirements of this policy. At maturity or liquidation, such monies shall be reinvested only as provided by this policy.

2. Amendments

The Investment Policy shall be reviewed on an annual basis. Any changes must be approved by the City Manager and the City Council, as well as the individuals charged with maintaining internal controls.

XI. Approval of Investment Policy

The Investment Policy shall be formally approved and adopted by the City Council of the City of Millbrae and reviewed annually.

AUTHORIZED INVESTMENT INSTRUMENTS

INVESTMENT TYPES	PERCENTAGE OF CITY PORTFOLIO	MAXIMUM TERM
State of California Local Agency Investment Fund (LAIF)	Regulated by State Law Currently \$40 Million per account	On Demand
San Mateo County Investment Pool	100%	On Demand
U. S. Treasury Bills	100%	One Year
U. S. Treasury Note	100%	Five Year
U. S. Treasury Bond	30%	Five Year
U. S. Agencies or Government sponsored enterprises	100%	Five Year
Bankers Acceptances	20%	180 Days
Collateralized Certificates of Deposit	25%	Two Year
Negotiable Certificates of Deposit	30%	Three Year
Commercial Paper	15%	180 Days
Money Market Mutual Funds	15%	On Demand

GLOSSARY

AGENCIES: Federal agency securities.

ARBITRAGE: A technique used to take advantage of price differences in separate markets. This is accomplished by purchasing securities, negotiable instruments or currencies in one market for immediate sale in another market at a better price.

BANKERS ACCEPTANCE (BA): A bearer time draft for a specified amount payable on a specified date. It is drawn on a bank by an individual or business seeking to finance domestic or international trade. The BA is collateralized by commodity products. Sale of goods is usually the source of the borrower's repayment to the bank. The bank finances the borrower's transaction and then often sells the BA on a discount basis to an investor. At maturity, the bank is repaid and the investor holding the BA receives par value from the bank.

BEAR MARKET: A period of generally pessimistic attitudes and declining market prices.

BOND: An interest-bearing security issued by a corporation, quasi-governmental agency or other body, which can be executed through a bank or trust company. A bond is a form of debt with an interest rate, maturity, and face value, and is usually secured by specific assets. Most bonds have a maturity of greater than one year, and generally pay interest semiannually.

BOND RATING: The classification of a bond's investment quality.

BOOK VALUE: The amount at which a security is carried on the books of the holder or issuer. The book value is often the cost, plus or minus amortization, and may differ significantly from the market value.

BROKER: A broker brings buyers and sellers together for a commission paid by the initiator of the transaction or by both sides; he does not position. In the money market, brokers are active in markets in which banks buy and sell money and in interdealer markets.

BULL MARKET: A period of generally optimistic attitudes and increasing market prices.

CERTIFICATE OF DEPOSIT (CD): A time deposit debt instrument issued by a bank with a specific maturity evidenced by a certificate. Institutional CD's are issued in denominations of \$100,000 or more. Maturities range from a few weeks to several years. Interest rates are set by competitive forces in the marketplace.

COMMERCIAL PAPER: Short-term obligations with maturities ranging from 2 to 270 days issued by banks, corporations, and other borrowers to investors with temporarily idle cash. Such instruments are unsecured and usually discounted, although some are interest-bearing.

COMMISSION: The brokers or agent's fee for purchasing or selling securities for a client.

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: The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value. 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.

DELIVERY VERSUS PAYMENT: There are two methods of delivery of securities: delivery versus payment and delivery versus receipts (also called free). Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipts is delivery of securities with an exchange of signed receipt for the securities.

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

DISCOUNT: The difference between the cost price of a security and its value at 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 at 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. Savings and Loan's, small business firms, students, farmers, farm cooperatives, and exporters.

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

FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC): A federal agency established in 1933 that guarantees (within limits) funds on deposit in member banks and performs other functions such as making loans to or buying assets from members banks to facilitate mergers or prevent failures.

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 & Urban Development, H.U.D. 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 RESERVE SYSTEM: The central bank of the United States, which consists of a seven member Board of Governors, 12 regional banks and approximately 5,700 commercial banks that are members.

FED WIRE: A wire transmission service established by the Federal Reserve Bank to facilitate the transfer of funds through debits and credits of funds between participants within the Fed system.

FISCAL YEAR: An accounting or tax period comprising any twelve month period. The City's fiscal year begins on July 1.

FULL FAITH AND CREDIT: The unconditional guarantee of the United States government backing a debt for repayment.

GOVERNMENT NATIONAL MORTGAGE ASSOCIATION / (GNMA or Ginnie Mae): Securities guaranteed by GNMA and issued by mortgage bankers, commercial banks, savings and loans associations and other institutions. Security holder is protected by full faith and credit of the U.S. Government. Ginnie Mae securities are backed by FHA, VA or FMHM mortgages. The term pass-throughs is often used to describe Ginnie Maes.

INTEREST RATE: The interest payable each year on borrowed funds, expresses as a percentage of the principal.

INVESTMENT: Use of capital to create more money, either through income-producing vehicles or through more risk-oriented ventures designed to result in capital gains.

INVESTMENT PORTFOLIO: A collection of securities held by a bank, individual, institution, or government agency for investment purposes.

LAIF: Trade name for the California State Local Agency Investment Fund.

LIQUIDITY: A liquid asset is one that can be converted easily and rapidly into cash without substantial loss of value.

LOCAL AGENCY INVESTMENT FUND (LAIF): Funds from local governmental units may be remitted to the California State Treasurer for deposit in this special fund for the purpose of investment.

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.

PORTFOLIO: The collection of securities held by an investor.

PRIMARY DEALER: A group of government securities dealers that 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.

RATE OF RETURN: 1) The yield obtainable on a security based on its purchase price or its current market price. 2) Income earned on an investment, expressed as a percentage of the cost of the investment. This may be the amortized yield to maturity on a bond or the current income return.

RATING: The designation used by investors’ services to rate the quality of a security’s creditworthiness. Moody’s ratings range from the highest Aaa, down through Aa, A, Bbb, Ba, B, etc. while Standard and Poor’s rating range from the highest AAA, down through AA, A, BBB, BB, B, etc.

REFINANCING: Rolling over the principal on securities that have reached maturity or replacing them with the sale of new issues. The object may be to save interest costs or to extend the maturity of the loan.

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 Federal Reserve Bank is said to be doing RP, it is lending money that is, increasing bank reserves. (i.e. A transaction where the seller (bank) agrees to buy back from the buyer (City) the securities at an agreed upon price after a stated period of time.)

REVERSE REPURCHASE AGREEMENT (REVERSE REPO): A transaction where the seller (City) agrees to buy back from the buyer (bank) the securities at an agreed upon price after a stated period of time.

SAFEKEEPING: A service offered to customers for a fee, where securities and valuables of all types and descriptions are held in the vaults for protection.

SECONDARY MARKET: A market made for the purchase and sale of outstanding issues following the initial distribution.

SECURITIES: Investment instruments such as bonds, stocks and other instruments of indebtedness or equity.

SECURITIES & EXCHANGE COMMISSION: Agency created by Congress to protect investors in securities transactions by administering securities legislation.

SPREAD: The difference between two figures or percentages. For example, it may be the difference between the bid and asked prices of a quote, or between the amount paid when brought and the amount received when sold.

TREASURY BILLS (T-Bill): A non-interest bearing security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three month, six month, or one year, and are sold in minimum amounts of \$10,000 in multiples of \$5,000 above the minimum. Treasury Bills are issued in book entry form only and are sold on a discount basis

TREASURY BONDS: Treasury Bonds are issued for a term of 30 years and pay a fixed rate of interest every six months until they mature.

TREASURY NOTES: Intermediate term coupon bearing U.S. Treasury securities having initial maturities of from one to ten years.

TRUSTEE: A bank designated as the custodian of funds and the official representative for bondholders.

UNDERWRITER: A dealer bank or financial institution, which arranges for the sale and distribution of a large batch of securities and assumes the responsibility for paying the net purchase price.

UNIFORM NET CAPITAL RULE: Securities and Exchange Commission requirement that member firms as well as nonmember broker-dealers in securities maintain maximum ratios 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.

U.S. GOVERNMENT AGENCIES: Instruments issued by various U.S. government agencies most of which are secured only by the credit worthiness of the particular agency.

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.