Spotsylvania County

Statement of Investment Policy

Adopted on: December 13, 2017
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GLOSSARY
SPOTSYLVANIA COUNTY
INVESTMENT POLICY

A. INTRODUCTION
Spotsylvania County is a political sub-division of the Commonwealth of Virginia, whose affairs are controlled by a Board of Supervisors composed of seven members, who are elected from districts for four-year terms. The Treasurer, an elected Constitutional Officer, adopts this Investment Policy and manages the cash management and investment processes subject to the guidelines of the Code of Virginia.

The purpose of this Investment Policy (the “Policy”) is to set general guidelines for the investment of the County’s funds.

B. SCOPE
This Policy applies to all the County’s cash and investments. The Policy will apply to such monies from the time of receipt until the time the monies leave the County’s accounts. For the purpose of this Policy, these funds are referred to as the “Investment Portfolio”. Although these assets may be pooled for investment purposes, they may be segregated as necessary for accounting and budgetary reporting purposes.

C. OBJECTIVES
1. All investments shall be in compliance with the Code of Virginia Sections §2.2-4400 et seq. and §2.2-4500 et seq.

2. The cash management and investment activities of the County shall be conducted in a manner which is consistent with prevailing prudent business practices which may be applied by other public organizations of similar size and financial resources.

3. The Investment Portfolio will be managed to accomplish the following fundamental goals:
   • Safety of Principal - The single most important objective of the investment program is the preservation of principal of those funds within the Investment Portfolio.
   • Maintenance of Liquidity - The Investment Portfolio will be managed at all times with sufficient liquidity to meet all daily and seasonal needs, as well as to fund special projects and other operational requirements which are either known or which might reasonably be anticipated.
   • Maximizing Return - The Investment Portfolio shall be managed to maximize the return on investments within the context and parameters set forth by the safety and liquidity objectives above.
D. STANDARD OF 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 liability for an individual security’s credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments. The “prudent person” standard states that:

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

The Treasurer and the Treasurer’s designees acting in accordance with written procedures and this Policy and exercising due diligence shall be relieved of personal responsibility for an individual security’s performance as provided in Code of Virginia §2.2-4516.

Furthermore, in accordance with Section §2.2-4410 et seq. of the Code of Virginia, the Treasurer shall not be liable for loss of public money due to the default, failure or insolvency of a depository.

E. ETHICS AND CONFLICTS OF INTEREST

The Treasurer and the Treasurer’s designees involved in the investment process shall comply with the Code of Virginia Section §2.2-3100 et seq., the State and Local Government Conflict of Interests Act. Specifically, no officer or employee shall:

a. accept any money, loan, gift, favor, service, or business or professional opportunity that reasonably tends to influence him in the performance of his official duties; or

b. accept any business or professional opportunity when he knows there is a reasonable likelihood that the opportunity is being afforded to influence him in the performance of his official duties.

All 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.

F. INTERNAL CONTROLS

The Treasurer shall establish a framework of internal controls governing the administration and management of the County’s Investment Portfolio. Such controls shall be designed to prevent and control losses of the County monies arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by any personnel. 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 require estimates and judgments by management.

G. AUTHORIZED INVESTMENTS
The Treasurer may invest in the following securities that are in compliance with the Virginia Code. The Treasurer, however, may impose additional requirements and restrictions in order to ensure that the County’s goals are met. Permitted Investments for the Investment Portfolio include:

1. **U.S. Treasury Obligations.** Bills, notes and any other obligation or security issued by or backed by the full faith and credit of the United States Government, as described by Code of Virginia §2.2-4501.

2. **Federal Agency/Government Sponsored Enterprise Obligations.** Bonds, notes and other obligations of the United States, and securities issued by any federal government agency or instrumentality or government sponsored enterprise, as described by Code of Virginia §2.2-4501.

3. **Municipal Obligations.** Bonds, notes and other general obligations of a state or municipal government, upon which there is no default, and which otherwise meet the requirements of Code of Virginia §2.2-4501.

4. **U.S. Dollar Denominated Supranational Agency Bonds.** Bonds and other obligations issued, guaranteed or assumed by the International Bank for Reconstruction and Development, by the Asian Development Bank or by the African Development Bank, as described by Code of Virginia §2.2-4501.

5. **Commercial Paper.** “Prime quality” commercial paper, issued by corporations operating under the laws of the United States or any state thereof, and otherwise meeting the requirements of Code of Virginia §2.2-4502.

6. **Bankers Acceptance.** Issued by domestic banks or a federally chartered office of a foreign bank, which are eligible for purchase by the Federal Reserve System as described by Code of Virginia §2.2-4504.

7. **Corporate Notes.** Unsecured promissory notes issued by corporations, and otherwise meeting the requirements of Code of Virginia §2.2-4510.

8. **Negotiable Certificates of Deposit and Bank Deposit Notes.** Negotiable certificates of deposit and negotiable bank deposit notes of domestic banks and domestic offices of foreign banks and otherwise meeting the requirements of Code of Virginia §2.2-4509.

9. **Bank Deposits and Non-Negotiable Certificates of Deposit.** Demand deposits, time deposits, and other deposits that comply with all aspects of the Security for Public Deposits Act and with Code of Virginia §2.2-4518.

10. **Money Market Mutual Funds (Open-Ended Investment Funds).** Shares in open-end, no-load investment funds provided such funds are registered under the Federal Investment Company Act of 1940. The mutual fund must comply with the diversification, quality and maturity requirements of Rule 2(a)-7, or any successor
rule, of the United States Securities and Exchange Commission, provided the investments by such funds are restricted to investments otherwise permitted by the Code of Virginia §2.2-4500 et seq.

12. **Pools.** Pooled investment programs provided that the underlying investments by such funds are restricted to investments otherwise permitted by the Code of Virginia for political sub-divisions, as described by Code of Virginia §2.2-4513.1. The County can invest in two different types of Pools:

   a. **Principal Stability Pools.** Pools that operate in compliance with the Government Accounting Standard Board’s Statement 79 (“GASB 79”), which maintain a weighted average maturity of less than 60 days and whose primary objective is to maintain a stable net asset value; and

   b. **Bond Funds.** Pools that may have a longer average maturity than principal stability pools and a fluctuating net asset value. Bond Funds can be used to generate a higher rate of return than Principal Stability Pools.

13. **Repurchase Agreements.** Repurchase agreements meeting the requirements of Code of Virginia §2.2-4507 and the conditions stated below:

   a. the contract is fully secured by deliverable U.S. Treasury and Federal Agency obligations as described in paragraph 1 and 2 above without regard to final maturity, having a market value at all times of at least one hundred and two percent (102%) of the amount of the contract;

   b. a Master Repurchase Agreement or specific written Repurchase Agreement governs the transaction;

   c. the securities are free and clear of any lien and held by an independent third party custodian acting solely as agent for the County, provided such third party is not the seller under the repurchase agreement;

   d. a perfected first security interest under the Uniform Commercial Code in accordance with book entry procedures prescribed at 31 C.F.R. 306.1 et seq. or 31 C.F.R. 350.0 et seq. in such securities is created for the benefit of the County;

   e. the counterparty is a:

      i. primary government securities dealer who reports daily to the Federal Reserve Bank of New York, or

      ii. a bank, savings and loan association, or diversified securities broker-dealer having at least $5 billion in assets and $500 million in capital and subject to regulation of capital standards by any state or federal regulatory agency; and

   f. the counterparty meets the following criteria:

      i. a long-term credit rating of at least ‘AA’ or the equivalent from an NRSRO

      ii. has been in operation for at least 5 years, and

      iii. is reputable among market participants.
H. INVESTMENT PARAMETERS

Mitigating Credit Risk in the Portfolio
Credit risk is the risk that a security or a portfolio will lose some or all of its value due to a real or perceived change in the ability of the issuer to repay its debt. It is the policy of Spotsylvania County to diversify its investment portfolios to minimize risk of loss resulting from the over-concentration of assets in a specific maturity, issuer, or class of securities.

Mitigating Market Risk in the Portfolio
Market risk is the risk that the portfolio value will fluctuate due to changes in the general level of interest rates. The County recognizes that, over time, longer-term/core portfolios have the potential to achieve higher returns. On the other hand, longer-term portfolios have higher volatility of return. The County shall mitigate market risk by providing adequate liquidity for short-term cash needs, and by making longer-term investments only with funds that are not needed for current cash flow purposes. The County further recognizes that certain types of securities, including variable rate securities, securities with principal pay downs prior to maturity, and securities with embedded options, will affect the market risk profile of the portfolio differently in different interest rate environments.

Maximum Maturity
Maintenance of adequate liquidity to meet the cash flow needs of the County is essential. Accordingly, to the extent possible, the Investment Portfolio will be structured in a manner that ensures sufficient cash is available to meet anticipated liquidity needs. Whenever practical, selection of investment maturities will be consistent with the known cash requirements of the County in order to minimize the forced sale of securities prior to maturity. Investments are limited to a maximum maturity of five (5) years from the transaction settlement date (with the exception of Agency Mortgage-Backed Securities which must have a weighted average life (WAL) of no more than five (5) years.

To manage the volatility of the Investment Portfolio, the Treasurer shall determine an appropriate duration or weighted average maturity (“WAM”) target for each component of the Investment Portfolio. At no time shall the duration or WAM of any component of the Investment Portfolio exceed 3 years.

Debt service reserve funds with longer term investment horizons may be invested in securities exceeding five (5) years if the maturity of such investment is made to coincide as nearly as practical with the expected use of funds.

Diversification Parameters
The following diversification parameters have been established and will be reviewed periodically by the Treasurer for all funds. The Treasurer may choose to implement limitations that are more restrictive than these parameters if he deems it prudent to do so.
The diversification parameters will be applied across all of the County’s investments governed by this policy, not at the individual fund level.

The Investment Portfolio shall be diversified by security type and institution. The maximum percentage of the portfolio permitted in each eligible security is as follows:

<table>
<thead>
<tr>
<th>Permitted Investment</th>
<th>Sector Limit</th>
<th>Issuer Limit</th>
<th>Ratings Requirement</th>
<th>Max Maturity</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Treasury Obligations</td>
<td>100%</td>
<td>100%</td>
<td>N/A</td>
<td>5 Years</td>
</tr>
<tr>
<td>Federal Agency/GSE Obligations</td>
<td>75%</td>
<td>40%</td>
<td>Same as or higher than the U.S. Federal Government</td>
<td>5 Years</td>
</tr>
<tr>
<td>Municipal Obligations</td>
<td>20%</td>
<td>5%</td>
<td>AA by at least one NRSRO</td>
<td>5 Years</td>
</tr>
<tr>
<td>Supranationals</td>
<td>30%</td>
<td>5%</td>
<td>Same as or higher than the U.S. Federal Government</td>
<td>5 Years</td>
</tr>
<tr>
<td>Commercial Paper</td>
<td>30%</td>
<td>5%</td>
<td>At least two of the following: A-1 (S&amp;P), P-1 (Moody’s), F-1 (Fitch), and D-1 (Duff &amp; Phelps)</td>
<td>270 Days</td>
</tr>
<tr>
<td>Bankers’ Acceptances</td>
<td>30%</td>
<td>5%</td>
<td>A-1 or equivalent by an NRSRO</td>
<td>180 Days</td>
</tr>
<tr>
<td>Corporate Notes</td>
<td>30%</td>
<td>5%</td>
<td>AA (S&amp;P) and Aa (Moody’s)</td>
<td>5 Years</td>
</tr>
<tr>
<td>Negotiable Certificates of Deposit and Bank Deposit Notes</td>
<td>30%</td>
<td>5%</td>
<td>A-1 (S&amp;P) &amp; P-1 (Moody’s) if less than one year to maturity; AA (S&amp;P) and Aa (Moody’s) if greater than one year to maturity</td>
<td>5 Years</td>
</tr>
<tr>
<td>Bank Deposits and Non-Negotiable Certificates of Deposit</td>
<td>100%</td>
<td>100%</td>
<td>Collateralized in accordance with the Security for Public Deposits Act</td>
<td>N/A</td>
</tr>
<tr>
<td>Repurchase Agreements</td>
<td>35%</td>
<td>35%</td>
<td>N/A</td>
<td>90 Days</td>
</tr>
<tr>
<td>Money Market Mutual Funds</td>
<td>100%</td>
<td>25%</td>
<td>AAAm or equivalent by an NRSRO</td>
<td>N/A</td>
</tr>
<tr>
<td>Principal Stability Pools</td>
<td>100%</td>
<td>100%</td>
<td>AAAm or equivalent by an NRSRO</td>
<td>N/A</td>
</tr>
<tr>
<td>Bond Funds</td>
<td>100%</td>
<td>25%</td>
<td>AAF or equivalent by an NRSRO</td>
<td>Maximum duration of 3 years</td>
</tr>
</tbody>
</table>

1. Ratings by a Nationally Recognized Statistical Ratings Organizations (“NRSRO”) as designated by the SEC
2. At time of purchase
3. From transaction settlement date

The Sector Limit and Issuer Limit shall be applied to the total Investment Portfolio value at the date of acquisition.

I. SECURITY DOWNGRADES

In the event that any security held in the Investment Portfolio is downgraded below AA or equivalent rating by Standard & Poor’s or Moody’s Investor Services, the Treasurer shall be notified immediately in order to determine any actions to be taken in relation to the downgrade.
J. COMPETITIVE SELECTION OF INVESTMENT INSTRUMENTS

The County has established the following procedures:

1. The Treasurer or Investment Manager shall seek to obtain competitive bid information on all purchases of investment instruments purchased on the secondary market. A competitive bid can be executed through a bidding process involving at least three separate brokers/financial institutions or through the use of a nationally recognized trading platform.

2. If the County is offered a security for which there is no readily available competitive offering on the same specific issue, then the Treasurer shall document quotations for comparable or alternative securities. When purchasing original issue instrumentality securities, no competitive offerings will be required as all dealers in the selling group offer those securities as the same original issue price.

K. INVESTMENT OF BOND PROCEEDS

Spotsylvania County intends to comply with all applicable sections of the Internal Revenue Code as it related to Arbitrage Rebate and the investment of bond proceeds. All investment records will be maintained to ensure compliance with all regulations. All bond proceeds will be invested in accordance with applicable bond resolutions.

L. COLLATERALIZATION OF BANK DEPOSITS

All bank deposits of the County should be considered Public Deposits as defined by Code of Virginia Security for Public Deposits Act (Section 2.2-4400 et seq.) and all deposits must be made with Qualified Public Depositories.

M. ENGAGEMENT OF INVESTMENT MANAGERS

The Treasurer may engage one of more qualified firms to provide investment management services for the County. All investment management firms who desire to provide investment services to the County will be provided with current copies of the County’s Investment Policy. Before an organization can provide investment services to the County, it must confirm in writing that it has received and reviewed the County’s Investment Policy.

Only firms meeting the following requirements will be eligible to serve as an investment manager for the County:

1) Registered with the Securities and Exchange Commission under the Investment Advisers Act of 1940;
2) Must provide to the County a copy of Form ADV, Part II;
3) Must be registered to conduct business in the Commonwealth of Virginia; and
4) Must have proven experience in providing investment management services under Code of Virginia §§Sections 2.2-4500 et seq.

Any firm engaged by the County to pride investment services shall:
1) Maintain a list of approved security brokers/dealers selected by creditworthiness who are authorized to provide investment services in the Commonwealth of Virginia;
2) Provide monthly reports of transactions and holdings to the Treasurer;
3) Provide quarterly performance reports that display investment performance in comparison to the County’s investment benchmarks; and
4) Not collect any soft dollar fees from any broker/dealer or other financial firm in relation to services provided to the County.

N. SELECTION OF BROKER/DEALERS
The Treasurer will maintain a list of broker/dealers that are approved for investment purposes. All broker/dealers who desire to provide investment services to the County will be provided with current copies of the County’s Investment Policy. Before an organization can provide investment services to the County, it must confirm in writing that it has received and reviewed the County’s Investment Policy.

At the request of the Treasurer, broker/dealers will supply the County with information sufficient to adequately evaluate their financial capacity and creditworthiness. The following information will be provided:
   1) audited financial statements;
   2) regulatory reports on financial condition;
   3) proof of Financial Institution Regulatory Authority (“FINRA”) certification and of state registration;
   4) a sworn statement by an authorized representative of the broker/dealer pledging to adhere to “Capital Adequacy Standards” established by the Federal Reserve Bank and acknowledging the broker/dealer understands that the County has relied upon this pledge;
   5) any additional information requested by the Treasurer in evaluating the creditworthiness of the institution.

Only firms meeting the following requirements will be eligible to serve as broker/dealers for the County:
   1) “Primary” dealers and regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule);
   2) Capital of at least $10,000,000;
   3) Registered as a dealer under the Securities Exchange Act of 1934;
   4) Member of the Financial Institution Regulatory Authority (“FINRA”);
   5) Registered to sell securities in the Commonwealth of Virginia; and
   6) Engaged in the business of effecting transactions in U.S. government and agency obligations for at least five (5) consecutive years.

The County shall designate broker/dealers on an annual basis. If an external third-party Investment Manager is engaged, the County is not responsible for maintaining a list of approved broker/dealers.
O. SAFEKEEPING AND CUSTODY

All investment securities purchased by the County or held as collateral on deposits or investments shall be held by the County or by a third-party custodial agent that may not otherwise be counterparty to the investment transaction.

All securities in the County’s Investment Portfolio will be held in the name of the County and will be free and clear of any lien. Further, all investment transactions will be conducted on a delivery-vs.-payment basis. The custodial agent shall issue a safekeeping receipt to the County listing the specific instrument, rate, maturity, and other pertinent information. On a monthly basis, the custodial agent will provide reports that list all securities held for the County, the book value of holdings, and the market value as of month-end.

The County officials and representatives of the custodial agent responsible for, or in any manner involved with, the safekeeping and custody process of the County shall be bonded in such a manner as to protect the County from losses from malfeasance and misfeasance.

Original copies of non-negotiable certificates of deposit and confirming copies of all other investment transactions must be delivered to the County or its custodial agent.

P. RECORDS AND REPORTS

The Treasurer will review an investment report on at least a quarterly basis as provided by external and/or internal investment managers. This report will provide an analysis of the status of the current investment portfolio and the individual transactions executed over the last quarter. This report will allow the Treasurer to ascertain whether investment activities during the reporting period have conformed to the Investment Policy. The report will include, at a minimum, the following:

1. An asset listing showing par value, cost and accurate and complete market value of each security, type of investment, issuer, and interest rate
2. Average maturity of the portfolio and effective duration of the portfolio
3. Maturity distribution of the portfolio
4. Average portfolio credit quality
5. Time-weighted total rate of return for the portfolio for the reporting period and trailing periods compared to the portfolio’s benchmark returns for the same periods
6. Average weighted yield to maturity of portfolio on investments as compared to applicable benchmarks
7. Distribution by type of investment
8. Performance relative to established benchmarks

Q. PERFORMANCE STANDARDS

The Investment Portfolio will be designed to obtain at least a market level rate of return, given budgetary and economic cycles, commensurate with the County’s investment risk and cash flow needs. The County’s portfolio management approach will be active,
allowing periodic restructuring of the Investment Portfolio to take advantage of current and anticipated interest rate movements.

The Investment Portfolio will be designed to obtain at least a market level rate of return, given budgetary and economic cycles, commensurate with the County’s investment risk and cash flow needs. The returns on the Portfolios will be compared on a quarterly basis to indices of U.S. Treasury securities having similar maturities or to other appropriate benchmarks. For funds having a weighted average maturity greater than 90 days, performance will be computed on a total return basis.

R. POLICY CONSIDERATIONS
This policy shall be reviewed on a periodic basis by the Treasurer. Any changes must be approved by the Treasurer.

S. INVESTMENT POLICY ADOPTION
This policy is adopted by Treasurer of Spotsylvania County, Virginia this 13th day of December, 2017.

____________________________________
Treasurer, Spotsylvania County, Virginia
GLOSSARY

**Bankers’ Acceptance**: a draft or bill or exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

**Benchmark**: a comparative base for measuring the performance or risk tolerance of the investment portfolio. A benchmark should represent a close correlation to the level of risk and the average duration of the portfolio’s investments.

**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 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.

**Commercial Paper**: An unsecured promissory note with a fixed maturity no longer than 270 days. Public offerings are exempt from SEC regulation.

**Corporate Notes**: Unsecured promissory notes issued by corporations to raise capital.

**Dealer**: 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**: delivery of securities with an exchange of money for the securities. (See also “Delivery versus Receipt”)

**Delivery versus Receipt**: delivery of securities with an exchange of a signed receipt for the securities. Also known as “free” delivery. (See also “Delivery versus Payment”)

**Diversification**: allocation investment funds among a variety of securities offering independent returns.

**Federal Agency**: government sponsored/owned entity created by the U.S. Congress, generally for the purpose of acting as a financial intermediary by borrowing in the marketplace and directing proceeds to specific areas of the economy considered to otherwise have restricted access to credit markets, also referred to as Government Sponsored Enterprises or GSEs. The largest are Ginnie Mae, Fannie Mae, Freddie Mac, Federal Home Loan Banks, Federal Farm Credit Bank, Tennessee Valley Authority.

**Federal Funds**: funds placed in Federal Reserve Banks by depository institutions in excess of current reserve requirements, and frequently loaned or borrowed on an overnight basis between depository institutions.
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.

Liquidity: the ability of ease with which an asset can be converted 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 transacted 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—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.

Nationally Recognized Statistical Rating Organization (NRSRO): A credit rating agency which issues credit ratings that the U.S. Securities and Exchange Commission (the “SEC”) permits other financial firms to use for certain regulatory purposes. Several examples include Moody’s Investor Service, Standard & Poor’s and Fitch Ratings.

Portfolio: collection of securities held by an investor.

Primary Dealer: a group of government securities dealers who submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC)-registered securities broker-dealers, banks, and a few unregulated firms.

Rate of Return: the yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond or the current income return.

Repurchase Agreement (RP or REPO): an agreement under which the holder of securities sells these securities to an investor with a commitment to repurchase the securities at a fixed price on a fixed date. The security’s “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.

Safekeeping: a service rendered by banks for a fee whereby securities and valuables of all types and descriptions are held by the bank for protection.
SEC Rule 15C3-1: see “Uniform Net Capital Rule”.

Securities and Exchange Commission (“SEC”): agency created by Congress to protect investors in securities transactions by administering securities legislation.

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. Income/current yield is obtained by dividing the current dollar income by the current market price for the security. 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.