# CITY OF DELANO

## Investment Policy

Pooled Investment Funds

**Revised**

CITY OF DELANO, CALIFORNIA

**CITY OF DELANO**
**INVESTMENT POLICY**

## 1.0 POLICY

It is the policy of the City of Delano to invest public funds in a manner which will provide the highest investment return with maximum security, while meeting the City's safety, liquidity and daily cash flow requirements and conformity to all State statues (California Government Code (GC) Section 53600, et seq.) and City ordinances governing the investment of public funds.

## 2.0 SCOPE

This Investment Policy applies to all invested financial assets of the City of Delano, unless specifically exempted or covered by other investments criteria, such as in a bond or trust covenant or indenture. These funds are accounted for in the City's Comprehensive Annual Financial Report (CAFR) and include the General Fund, Special Revenue Funds, Capital Projects Funds, Enterprise Funds, Internal Service Funds, and Trust and Agency Funds. All financial assets of these funds shall be administered in accordance with the provisions in this policy with the exception of the City of Delano Employee Retirement/PensionFund/OPEB, which are administered separately by the City's third party administrator and invested in qualified mutual funds or managed and invested by trustees appointed to the City of Delano Pension Committee, Deferred Compensation Plan which are managed by a third party administrator, the Public Employee Retirement System which is managed by CALPERS, and Bond Reserve Funds which are invested in accordance to the provisions of their specific bond indentures.

## 3.0 PRUDENCE

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

3.2 The standard of prudence to be used by the investment official shall be the "prudent person" standard as defined by government code which includes consideration of the economic conditions and the potential needs of the agency, and shall be applied in the context of managing an overall portfolio. The City Investment officials responsible for adhering to this standard include the Finance Director/Treasurer or his/her appointed Finance Department staff designee. All governing bodies of the City of Delano or persons authorized to make investment decisions on behalf of the City of Delano's public funds pursuant to this chapter are trustees and therefore fiduciaries subject to the prudent investor standard. (California Government Code (GC) Sections 53600.3, 53646 and 27000.3)

3.3 Investment officers acting in accordance with the Investment Policy and written procedures, 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 appropriate action is taken to control adverse developments.

**4.0 INVESTMENT POLICY GUIDELINES AND ADOPTION**

4.1 All investments shall be registered in the name of the City and shall be kept in the custody of the city.

4.2 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 funds shall be reinvested only as provided by this policy.

4.3 The City's Investment Policy shall be adopted by Resolution of City Council. The policy shall be reviewed annually by the Finance Director/Treasurer, and any modifications must be reviewed by the City Manager and approved by the City Council.

**5.0 OBJECTIVES/PERFORMANCE STANDARDS Reference CA Govt. Code 53600.5**

The primary objectives, in priority order of the City of Delano's investment activities shall be:

5.1 **Safety:** Safety of principal is the foremost objective of the City of Delano. Investment decisions shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The City shall seek to preserve principal by mitigating various types of risks, including credit risk and market risk. To attain this objective the City will diversify the investment portfolio by investing funds among a variety of securities and financial institutions to ensure the preservation of capital in the overall portfolio. Diversification is required in order minimize losses.

**Credit Risk** –Credit or default risk shall be mitigated by investing in high grade securities and by diversifying the investment portfolio so that the failure of any one issuer would not unduly harm the City's cash flow. The City will minimize risks by using prequalified investments institutions and diversifying the investment portfolio to minimize the impact of potential losses from any one type of security or issuer.

**Market Risk-**The City will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market rates attributed to moves in market factors. The portfolio will be structured so that securities mature to meet cash requirements for ongoing operations, therefore, minimizing the need to sell securities on the open market prior to maturity.

5.2 **Liquidity:**

The City's investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements, which might be reasonably anticipated.

The liquidity portfolio will be designed to ensure that the projected pool expenditure requirements of the City for the next six months can be met with anticipated revenues and a combination of maturing securities, coupon payments and/or highly liquid investments at all times, as required by California Government Code 53646.

Maturities of investments for which there is limited opportunity for resale shall be staggered to maximize liquidity.

5.3 **Return on Investments (Market Yield/Benchmark):**

The City's investment portfolio shall be designed with the objective of exceeding the average six-month U. S. Treasury Bill rates throughout budgetary and economic cycles, commensurate with the City's investment risk constraints and the cash flow characteristics of the portfolio. These indices are considered benchmarks for low risk investments and, therefore, comprise a reasonable standard against which to measure the portfolio's rate of return.

The City intends to hold its investments to maturity in order to maximize its return on its investments and minimize its exposure to potential losses resulting from temporary declines in the market values of its investments.

**6.0 DELEGATION OF AUTHORITY**

The City Council, as permitted under California Government Code 53607, delegates the responsibility to invest or reinvest the funds of the City of Delano or to sell or exchange securities so purchased, to the Finance Director/Treasurer.

**7.0 ETHICS AND CONFLICT OF INTEREST**

Elected officials, officers, employees and any other individuals involved in the investment process are prohibited from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions, or which could give the appearance thereof. Investment officials, officers and employees shall make all disclosures appropriate under the Fair Political Practices Act and may seek the advice of the City Attorney and the Fair Political Practices Commission whenever there is a question of personal financial or investment positions that could represent potential conflicts of interest.

All investment personnel shall comply with the reporting requirements of the Political Reform Act, to include the annual filing of Statements of Economic Interest.

**8.0 SAFEKEEPING OF SECURITIES**

To protect against potential losses caused by collapse of individual securities dealers, all securities owned by the City, shall be held in safekeeping by the City's custodian bank or third party custodian designated by the Finance Director/Treasurer.

All securities will be received and delivered using standard delivery-versus-payment (DVP) procedures and in accordance with State law.

Any exception to this standard delivery practice will require written procedural approval by the Finance Director/Treasurer.

**9.0 INTERNAL CONTROL**

The Finance Director/Treasurer shall establish and adhere to written investment procedures and internal controls established for the operation of the investment program which are consistent with the Investment Policy. Such procedures should address safekeeping, wire transfer agreements, contracts and collateral depository agreements, and banking services and should include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this Policy and the procedures established.

These policies and procedures are reviewed during the year by the Finance Director/Treasurer. On an annual basis an independent audit is conducted by a public accounting firm which includes a review of the investment procedures and activities of the Finance Director/Treasurer's office.

**10.0 AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS**

No public deposit shall be made except in a qualified public depository as established by State law. All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the Treasurer with audited financial statements, proof of National Association of Security Dealers Certification, and proof of state registration.

The City shall transact business with broker/dealers that meet the qualification criteria established by the Finance Director/Treasurer. In accordance with California Government Code 53601 a bank/dealer must be qualified as a dealer regularly reporting to the New York Federal Reserve Bank. The Finance Director/Treasurer shall ensure that brokers/dealers who wish to do business with the City meet the qualification criteria and make market securities appropriate to the City's needs, and can provide additional value through competitive execution, timely market information and general research.

Annually, the Finance Director/Treasurer shall send a copy of the current investment policy to all dealers who have met the qualification criteria and are doing business with the City. Investment staff will maintain a qualification matrix and annually review dealers to ensure they are qualified. Confirmation of receipt of this policy shall be considered as evidence that the dealer understands the City's investment policies, and intends to show the City only appropriate investments.

**11.0 AUTHORIZED INVESTMENTS**

In accordance with California Government Code 53600.3 the Finance Director/Treasurer or his/her designee who are authorized to make investment decisions on behalf of the City are trustees and therefore fiduciaries subject to the prudent investor standard.

When investing, reinvesting, purchasing, acquiring, exchanging, selling and managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing.

Trading is prohibited when cash or liquid securities are not available to pay for the securities being purchased. The taking of short positions, that is, selling securities which the City does not own, is also prohibited.

The City is empowered to invest surplus fund pursuant to Sections 53600 et. seq. of the Government Code of the State of California. Within the context of the authorized investments permitted therein, the authorized investments of the City are further limited herein to:

11.1 **DEMAND DESPOSITS/PASSBOOK SAVINGS**. The City may invest in demand deposits/passbook savings collateralized in accordance with State and Federal Laws and this Investment Policy, in those banks and savings and loan associations that meet the requirements of State Law for public deposits.

11.2 **MUTUAL FUNDS.**Mutual Funds that meet the requirements of California Government Code 53601(k) and that invest in the securities and obligations hereinabove authorized.

11.3 **LOCAL AGENCY INVETMENT FUND (LAIF).** Investments of funds in LAIF are managed by the State Treasurer. The pooled money investment activity is subject to the State's annual investment policy. Each agency is limited to an investment of $40 million per account. The City uses this fund for short-term liquidity investment, and yield when rates are declining as funds are available upon demand. Interest is paid quarterly.

11.4 **CERTIFICATES OF DEPOSIT (CD).** Time Certificates of Deposit will be made only in accounts insured pursuant to Federal Laws. A time certificate of deposit, non-negotiable and is held for a fixed-term and is an interest bearing bank deposit with a specified date of maturity. For Deposits in excess of the insured maximum, approved collateral shall be required in accordance with California Government Code Section 53652. Purchases of Time Certificates of Deposit are restricted to a maximum of 30% of the City's surplus funds and maximum maturity of 3 years. The City may invest in negotiable certificates of deposit collateralized in accordance with State and Federal laws and this Investment Policy, in those banks and savings and loan associations permitted by State law. A Negotiable Certificate of Deposit (NCD) is a certificate of deposit with a minimum face value of $100,000 that is short-term (2 to 52 weeks). No more than 30% of the City's portfolio may be invested in negotiable certificates of deposit.

11.5 **U.S. Treasury Obligations** United States Treasury notes, bonds, bills, or certificates of indebtedness, or those for which the faith and credit of the United States are pledged for payment of principal and interest. There is no limitation as to the percentage of City funds that can be invested in this category, as they are both safe and liquid.

11.6 **Federal Agency Securities.** Obligations issued by the Government National Mortgage Association (GNMA), the Federal Farm Credit Bank System (FFCB), the Federal Home Loan Bank Board (FHLB), the Federal Home Loan Mortgage Corporation (FHLMC), the Tennessee Valley Authority, and those fully guaranteed as to principal and interest by the Federal National Mortgage Association (FNMA) and those insured by the Federal Housing Administration (FHA). Although there is no percentage limitation on these issues, the "prudent investor" rule shall apply to the portion of the City's funds invested in the obligations of any one such entity as U.S. Government backing is implied rather than guaranteed.

11.7 **BANKER'S ACCEPTANCE (BA).**Bills of exchange or time drafts which are drawn on and accepted by a commercial bank and are eligible for purchase by the Federal Reserve System. Purchases of bankers' acceptances may not exceed 180 days to maturity or 40% of the City's surplus funds, nor may the City invest more than 20% of its surplus funds in bankers' acceptances of any one commercial bank.

11.8 **COMMERCIAL PAPER.** Prime quality, highest ranking or of the highest letter and numerical rating as provided for by Moody's Investors Service, Inc. or Standard & Poor's Corporation; short term, unsecured, negotiable promissory notes issued by corporations. Purchases of eligible Commercial Paper shall not exceed 270 days to maturity. Investments in Commercial Paper shall not exceed 25% of the City's surplus funds, nor represent more than 10% of the outstanding paper of any one issuing corporation.

11.9 **MEDIUM TERM CORPORATE NOTES.**An obligation of a domestic corporation or depository institution. To be eligible for investment by the City, notes must be rated A or better by a nationally recognized rating service and a maximum maturity of 5 years. Purchases of Medium Term Notes may not exceed 30% of the City's surplus funds.

11.10 **REPURCHASE AGREEMENTS (REPOS).**A purchase of securities by the City pursuant to an agreement by which the seller will repurchase such securities on or before a specific date, or on demand of either party, and for a specified amount. No more than 10% of the City's surplus fund shall be invested in repurchase agreements. Investment in Repos will be used solely as a short-term investment not to exceed 90 days and the market value of the securities used as collateral shall be limited to obligations of the United States Government and its agencies. The market value of securities that underlay a repurchase agreement shall be valued at 102 percent or greater of the funds borrowed against those securities and the value shall be adjusted no less than quarterly. Securities used as collateral shall be held by the City's depository bank trust department held in a manner that establishes the City's right to ownership.

**12. 0 PROHIBITED SECURITIES:**

Investments not described above, are prohibited for purchase in the City's portfolio. Prohibited investments include, but not limited to, inverse floaters, range notes, interest only strips derived from a pool of mortgages and any security that could result in zero interest accrual if held to maturity as specified in Section 53601 of the California Government Code.

**13.0 COLLATERALIZATION OF DEPOSITS:** In accordance with the provisions of California Government Code Sections 53652, 53656 and 53657, all deposits of the City of Delano, including certificates of deposit and special time deposits, in excess of the amount insured under the provisions of the Federal Deposit Insurance Act, shall be secured by a pledge of "eligible securities" with an aggregate "market value" as required by Government Code Section 53652. In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be 102% of market value of principal and accrued interest. The City chooses to limit collateral to those securities listed as authorized investments.

Eligible securities used for collateralization of deposits shall be held by an independent third party custodial bank or trust company with which the City has a custodial agreement. The custodial agreement shall provide that eligible securities are being pledged to secure City deposits and any costs or expenses arising out of the collection of such deposits upon default. It shall also provide the conditions under which the securities are not registered or inscribed in the name of the City, such securities shall be delivered in a form suitable for transfer or with an assignment to the City of Delano or is custodial bank.

The custodial agreement shall provide that securities held by the bank or trust company, or agent of the custodial bank or trust company and will not, in any circumstances, be commingled with or become part of the backing for any other deposits or other liabilities. The agreement should also describe that the custodian shall confirm the receipt, substitution or release of securities. The agreement shall provide for the frequency of revaluation of eligible securities and for the substitution of securities when a change in the rating of a security may cause ineligibility. Such agreement shall include all provisions necessary to provide the City a perfected interest in the securities.

**14.0 REPORTING**

The Finance Director/Treasurer shall provide on a monthly and a quarterly basis (or as otherwise requested by the City Manager) a report of the investment portfolio to the City Council in accordance with California Government Code 53646.

The Finance Director/Treasurer shall render an investment report to the City Council and the City Manager. This report shall include the type of investment, issuer, date of maturity, par and dollar amount invested on all securities, investments and moneys held by the City, and shall additionally include a description of any of the City's funds, investments, or programs, that under the management of contracted parties, including lending programs.

The report shall also include a current market value as of the date of the report and the source of this valuation. The report shall state compliance of the portfolio with the City of Delano's Investment Policy.

The report shall include a statement denoting the ability of the City to meet its pool's expenditure requirements for the next six months, or provide an explanation as to why sufficient money shall, or may not be available.

**15.0 <u>REVIEW OF INVESTMENT PORTFOLIO</u>**

The securities held by the City must be in compliance with Section 11, Authorized investments at the time of purchase. The Finance Director/Treasurer shall review the portfolios quarterly to identify any securities that are no longer in compliance. The Finance Director/Treasurer shall report any major and critical incidences of noncompliance in the quarterly treasurer's report to the City Manager and City Council.

**16.0 <u>POLICY REVIEW</u>**

The investment policy shall be reviewed by the City Council annually and should be considered at a regular meeting of the City Council as required by California Government Code 53646. This will ensure consistency with the overall objectives of preservation of principal, liquidity, rate of return, and its relevance to current law and financial income trends. Any modifications made to the policy should be reviewed by the City Manager and approved by the City Council

# GLOSSARY

The following is an example of common treasury terminology:

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

**ASKED:** The price at which securities are offered.

**BANKERS' ACCEPTANCE (BA):** A draft or bill or exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

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

**BID:**The price offered by a buyer of securities. (When you are selling securities, you ask for a bid). See Offer.

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

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

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

**COUPON:** (a) The annual rate of interest that a bond's issuer promises to pay the bondholder on the bond's face value. (b) A certificate attached to a bond evidencing interest due on a payment date. DEALER: a dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his own account.

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

**DELIVERY VERSUS PAYMENT:** There are two methods of delivery of securities: delivery versus payment and delivery versus receipt. Delivery versus payment is delivery of securities with an exchange or money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.

**DERIVATIVES:** (1) Financial instruments whose return profile is linked to, or derived from, the movement of one or more underlying index or security, and may include a leveraging factor, or (2) financial contracts based upon notional amounts whose value is derived from an underlying index or security (interest rates, foreign exchange rates, equities or commodities).

**DISCOUNT:** The difference between the cost price of a security and its maturity when quoted at lower than face value. A security selling below original offering price shortly after sale also is considered to be at a discount.

**DISCOUNT SECURITIES:** Non-interest bearing money market instruments that are issued at a discount and redeemed at maturity for full face value, e.g., U.S. Treasury Bills.

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

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

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

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

**FEDERAL HOME LOAN BANKS (FHLB):** Government sponsored wholesale banks (currently 12 regional banks) which lend funds and provide correspondent banking services to number commercial banks, thrift institutions, credit unions and insurance companies. The mission of the FHLBs is to liquefy the housing related assets of its members who must purchase stock in their district Bank.

**FEDERAL NATIONAL MORTGAGE ASSOCIATION (FNMA):** FNMA, like GNMA was chartered under the Federal National Mortgage Association Act of 1938. FNMA is a federal corporation working under the auspices of the Department of Housing and Urban Development (HUD). It is the largest single provider of residential mortgage funds in the United States. Fannie Mae, as the corporation is called, is a private stockholder-owned corporation. The corporation's purchases include a variety of adjustable mortgages and second loans, in addition to fixed-rate mortgages. FNMA's securities are also highly liquid and are widely accepted. FNMA assumes guarantees that all security holders will receive timely payment of principal and interest.

**FEDERAL OPEN MARKET COMMITTEE (FOMC):** Consist of seven members of the Federal Reserve Board and five of the twelve Federal Reserve Bank Presidents. The President of the New York Federal Reserve Bank is a permanent member, while other Presidents serve on rotating basis. The Committee periodically meets to set Federal Reserve guidelines regarding purchases and sales of Government Securities in the open market as a means of influencing the volume of bank credit and money.

**FEDERAL RESERVE SYSTEM:** The central bank of the United States created by Congress and consisting of a seven member Board of Governors in Washington D.C., 12 regional banks and 5,700 commercial banks that are members of the system.

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

**LIQUIDITY:** A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow and reasonable size can be done at those quotes.

**LOCAL GOVERNMENT INVESTMENT POOL (LGIP):** The aggregate of all funds from political subdivisions that are placed in the custody of the State Treasurer for investment and reinvestment.

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

**MASTER REPURCHASE AGREEMENT:** A written contract covering all future transactions between the parties to repurchase-reverse repurchase agreements that establishes each party’s rights in the transactions. A master agreement will often specify, among other things, the right of the buyer-lender to liquidate the underlying securities in the event of default by the seller-borrower.

**MATURITY:** The date upon which the principal or stated value of an investment becomes due and payable.

**MONEY MARKET:** The market in which short-term debt instruments (bills, commercial paper, bankers’ acceptances, etc.) are issued and traded.

**OFFER:** The price asked by a seller of securities. (When you are buying securities, you ask for an offer.) See Asked and Bid.

**OPEN MARKET OPERATIONS:** Purchases and sales of government and certain other securities in the open market by the New York Federal Reserve Bank as directed by the FOMC in order to influence the volume of money and credit in the economy. Purchases inject reserves into the bank system and stimulate growth of money and credit; sales have the opposite effect. Open market operations are the Federal Reserve’s most important and most flexible monetary policy tool.

**PORTFOLIO:** Collection of securities held by an investor.

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

**PRUDENT PERSON RULE:** An investment standard. The law requires that a fiduciary, such as trustee, may invest money only in a list of securities selected by the custody state-the so-called legal list. The trustee may invest in a security if it is one which would be bought by a prudent person of discretion and intelligence who is seeking a reasonable income and preservation of capital.

**QUALIFIED PUBLIC DEPOSITORIES:** A financial institution which does not claim exemption from the payment of any sales or compensating use or ad valorem taxes under the laws of this state, which has segregated for the benefit of the commission eligible collateral having a value of not less than its maximum liability and which has been approved by the Public Deposit Protection Commission to hold public deposits.

**RATE OF RETURN:** The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond the current income return.

**REPURCHASE AGREEMENT (RP OR REPO):** A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security "buyer" in effect lends the "seller" money for the period of the agreement, and the terms of the agreement are structured to compensate him for this. Dealers use RP extensively to finance their positions. Exception: When the Fed is said to be doing RP, it is lending money, that is, increasing bank reserves.

**SAFEKEEPING:** A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank's vaults for protection.

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

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

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

**STRUCTURED NOTES:** Notes issued by Government Sponsored Enterprises (FHLB, FNMA, SLMA, etc.) and Corporations which have imbedded options (e.g., call features, step-up coupons, floating rate coupons, derivative-based returns) into their debt structure. Their market performance is impacted by the fluctuation of interest rates, the volatility of the imbedded options and shifts in the shape of the yield curve.

**TREASURY BILLS:** A non-interest bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months, or one year.

**TREASURY BONDS:** Long-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities of more than 10 years.

**TREASURY NOTES:** Medium-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government and having initial maturities from two to 10 years.

**UNIFORM NET CAPITAL RULE:** Securities and Exchange Commission requirement that member firms as well as nonmember broker-dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called net capital rule and net capital ratio. Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities, one reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash.

**YIELD:** The rate of annual income return on an investment, expressed as a percentage. (a) **INCOME YIELD** is obtained by dividing the current dollar income by the current market price of 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.