

Access Services

INVESTMENT POLICY
April 2019

DRAFT

INVESTMENT POLICY

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1.0 Policy

It is the policy of Access Services (Access) to ensure that the temporarily idle funds of the agency are prudently invested to preserve capital and provide necessary liquidity, while maximizing earnings, and conforming to state and local statutes governing the investment of public funds.

This investment policy conforms to the California Government Code ("Code") Section 53600 et seq., Sections 16429.1 through 16429.4, this investment policy as well as to customary standards of prudent investment management. Investments may only be made as authorized by this investment policy as approved by the Board of Directors. Should the provisions of the annual Memorandum of Understanding (MOU) between Access and Metro become more restrictive than those contained herein, such provisions will be considered as immediately incorporated in this investment policy. Changes to this investment policy may be adopted by the Board of Directors (Board) from time to time as necessary.

2.0 Scope

- 2.1 This investment policy sets forth the guidelines for the investment of surplus General, Special Revenue, Capital Projects, and any new fund created by the Board, unless specifically exempted. Excluded from this investment policy are guidelines for the investment of funds related to Deferred Compensation, 401(k), 403(b) and 457(b) Funds.
- 2.2 The Deputy Executive Director is responsible for monitoring and ensuring that the total funds subject to this investment policy remain in compliance with this investment policy, and shall report to the Board regularly on compliance

3.0 Investment Objectives

- 3.1 The primary objectives, in priority order, of investment activities shall be:
 - A. **Safety:** Safety of principal is the foremost objective of the investment program. The investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. Access shall seek to ensure that capital losses are avoided whether from institutional default, broker-dealer default, or erosion of market value. Diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.
 - B. **Liquidity:** The investment portfolio will remain sufficiently liquid to meet all operating requirements that might be reasonably anticipated.
 - C. **Return on Investments:** Access shall manage its funds to maximize the return on investments consistent with the two objectives above.
- 3.2 It is policy to hold investments to maturity. However, a security may be sold prior to its maturity and a capital gain or loss recorded if liquidity needs arise, or in order to improve the quality, or rate of return of the portfolio in response to market conditions and/or

Access risk preferences. The Deputy Executive Director shall report such losses to the Executive Director and to the Board at the next regularly scheduled board meeting.

- 3.3 When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing Access funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent investor acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency. Within the limitations of this section and considering individual investments as part of an overall strategy, investments may be acquired as authorized by law.
- 3.4 The standard of prudence to be used by investment officials shall be the "prudent investor" standard and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with this investment policy, written portfolio guidelines and 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 the quarterly investment report to the Board, and appropriate action is taken to control adverse developments.

4.0 Delegation of Authority

- 4.1 The Board shall be the trustee of funds received by Access. In accordance with Code Section 53607, the Board hereby delegates the authority to invest or reinvest the funds, to sell or exchange securities so purchased and to deposit securities for safekeeping to the Deputy Executive Director for a one year period, who thereafter assumes full responsibility for such transactions and shall make a monthly report of those transactions to the Board. Subject to review by the Board, the Board will renew the delegation of authority each year.
- 4.2 The Deputy Executive Director shall establish written procedures for the operation of the investment program consistent with this investment policy, including establishment of appropriate written agreements with financial institutions. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. The Deputy Executive Director may engage independent investment managers to assist in the investment of its financial assets.
- 4.3 No person may engage in an investment transaction except as provided under the terms of this investment policy and the procedures established by the Deputy Executive Director.
- 4.4 Officers and employees involved in the investment process shall be governed by the standards regarding ethical behavior and conflicts of interest established in the Access Services Ethics Policy and annually shall file a Statement of Economic Disclosure as required by law.

5.0 Permitted Investments

5.1 All funds which are not required for immediate cash expenditures shall be invested in income producing investments or accounts, in conformance with the provisions and restrictions of this investment policy as defined in Section 5.1A, and as specifically authorized by the Code Sections 53600, et seq. Securities held by the Access's custodial bank must be in compliance with Section 5.0 Permitted Investments at the time of purchase.

5.2 In order to reduce overall portfolio risk, investments shall be diversified among security type, maturity, issuer and depository institutions. See Section 5.1A for specific concentration limits by type of investment.

A. Percentage limitations where listed are only applicable at the date of purchase.

In calculating per issuer concentration limits commercial paper, bankers' acceptances, medium term notes, asset-backed securities, placement service assisted deposits, and negotiable certificates of deposit shall be included; deposits collateralized per Section 7.3 of this investment policy are excluded from this calculation.

B. Credit requirements listed in this investment policy indicate the minimum credit rating (or its equivalent by any nationally recognized statistical rating organization) required at the time of purchase without regard to modifiers (e.g., +/- or 1,2,3), if any.

5.3 Maturities of individual investments shall be diversified to meet the following objectives:

A. Investment maturities will be first and foremost determined by anticipated cash flow requirements.

B. Where this investment policy does not state a maximum maturity in Section 5.1A, no investment instrument shall be purchased which has a stated maturity of more than two years from the date of purchase, unless the instrument is specifically approved by the Board or is approved by the Board as part of an investment program and such approval must be granted no less than three months prior to the investment. The Board hereby grants express authority for the purchase of new issue securities with a five-(5) year stated maturity with extended settlement of up to 30 days from date of purchase.

C. The average duration of the externally managed funds subject to this investment policy shall not exceed 150% of the benchmark duration. The weighted average duration of the internal portfolios shall not exceed one (1) year.

5.4 Cash Equivalents -All Managers

A. Short term fixed income investments, when held, should be of high quality involving minimal risk of principal (e.g., U.S. Government and Federal Agency securities, negotiable certificates of deposit and bankers acceptances).

B. Investments in commercial paper must have a minimum rating of A-2 or P-2

- C. Investments in securities of a single issuer (with the exception of the U.S. Government and its fully guaranteed agencies) should not exceed 10% of the portfolio.
- 5.5 State and local government sponsored Investment Pools and money market mutual funds as authorized by this investment policy are subject to due diligence review prior to investing and on a continual basis as established in Section 5.1A, #11 and #12.
- 5.6 This investment policy specifically prohibits the investment of any funds subject to this investment policy in the following securities:
- A. Derivative securities, defined as any security that derives its value from an underlying instrument, index, or formula, are prohibited. The derivative universe includes, but is not limited to, structured and range notes, securities that could result in zero interest accrual if held to maturity, variable rate, floating rate or inverse floating rate investments, financial futures and options, and mortgage derived interest or principal only strips. Callable or putable securities with no other option features, securities with one interest rate step-up feature, and inflation indexed securities meeting all other requirements of this investment policy are excluded from this prohibition, as are fixed rate mortgage-backed securities and asset-backed securities.
 - B. Reverse repurchase agreements and securities lending agreements.

6.0 Selection of Depository Institutions, Investment Managers and Broker-Dealers

- 6.1 To minimize the risk to the overall cash and investment portfolio, prudence and due diligence as outlined below shall be exercised with respect to the selection of Financial Institutions in which funds are deposited or invested. Access will conduct competitive processes to recommend providers of financial services including commercial banking and investment management services.
- A. In selecting Depositories pursuant to Code Sections 53630 (et seq.) the credit worthiness, financial stability, and financial history of the institution, as well as the cost and scope of services and interest rates offered shall be considered. No funds will be deposited in an institution unless that institution has an overall rating of not less than "satisfactory" in its most recent evaluation by the appropriate federal financial supervisory agency. The main depository institutions will be selected on a periodic and timely basis.
 - B. Deposits which are insured pursuant to federal law by the Federal Deposit Insurance Corporation (FDIC), or the National Credit Union Administration (NCUA) may be excluded from the collateralization requirements of Section 7.3 of this investment policy, at the Deputy Executive Director's discretion. A written waiver of securitization shall be executed, provided to the Depository Institution, and kept on file in the Deputy Executive Director's Office.

- C. The Deputy Executive Director shall seek opportunities to deposit funds with disadvantaged business enterprises, provided that those institutions have met the requirements for safety and reliability and provide terms that are competitive with other institutions.

6.2 Should it become necessary, in selecting external investment managers and brokers, past performance, stability, financial strength, reputation, area of expertise, and willingness and ability to provide the highest investment return at the lowest cost within the parameters of this investment policy shall be considered. External investment managers must be registered with the Securities and Exchange Commission (SEC) under the Investment Advisor Act of 1940.

6.3 Pursuant to Code Section 53601.5, Access and its investment managers shall only purchase statutorily authorized investments either from the issuer, from a broker-dealer licensed by the state, as defined in Section 25004 of the Corporations Code, from a member of a federally regulated securities exchange, a national or state-chartered bank, a federal or state association (as defined by Section 5102 of the Financial Code), or from a brokerage firm designated as a primary government dealer by the Federal Reserve Bank.

- A. External investment managers must certify in writing that they will purchase securities in compliance with this investment policy, Access Procedures, and applicable State and Federal laws.

6.4 Financial institutions and external investment managers conducting investment transactions with or for Access shall sign a Certification of Understanding. The Certification of Understanding (see Appendix A) states that the entity:

- A. Has read and is familiar with the Investment Policy and Guidelines as well as applicable Federal and State Law;
- B. Meets the requirements as outlined in this investment policy;
- C. Agrees to make every reasonable effort to protect the assets from loss;
- D. Agrees to notify Access in writing of any potential conflicts of interest.

Completed certifications shall be filed in the Deputy Executive Director's Office. Failure to submit a Certification of Understanding shall result in the withdrawal of all funds held by that financial institution, or investment manager and/or the rescission of any and all authority to act as an agent to purchase or invest funds.

7.0 Custody and Safekeeping of Securities and Access Funds

7.1 A Master Repurchase Agreement must be signed with the bank or dealer before any securities and collateral for repurchase agreements shall be purchased and maintained for the benefit of Access in the Trust Department or safekeeping department of a bank as established by a written third party safekeeping agreement between Access and the bank.

Specific collateralization levels are defined in Section 5.1A.

- 7.2 All investment transactions shall be settled "delivery vs. payment", with the exception of deposits, money market mutual fund investments, and Local Agency Investment Fund or other Local Government Investment Pools. Delivery may be physical, via a nationally recognized securities depository such as the Depository Trust Company, or through the Federal Reserve Book Entry system.
- 7.3 Funds deposited shall be secured by a Depository in compliance with the requirements of Code Section 53652. Such collateralization shall be designated and agreed to in writing

8.0 Reports and Communications

- 8.1 The Deputy Executive Director is responsible for ensuring compliance with all applicable Local, State, and Federal laws governing the reporting of investments made with public funds. All investment portfolios will be monitored for compliance. Non-compliance issues will be included in the Board report as stated in Section 8.3 of this investment policy.
- 8.2 The Deputy Executive Director shall annually submit a statement of investment policy to the Board for approval. The existing approved investment policy will remain in effect until the Board approves the recommended statement of investment policy.
- 8.3 The Deputy Executive Director shall render a quarterly cash, investment, and transaction report to the CEO and Board within 30 days of quarter-end. The report shall include a description of Access's funds, investments, or programs that are under the management of contracted parties, including lending programs. The report shall include as a minimum:
- A. Portfolio Holdings by Type of Investment and Issuer
 - B. Maturity Schedule and Weighted Average Maturity (at market)
 - C. Weighted Average Yield to Maturity
 - D. Return on Investments versus Performance Benchmarks on a quarterly basis
 - E. Par, Book and Market Value of Portfolio for current and prior quarter-end
 - F. Percentage of the portfolio represented by each investment category
 - G. Total Interest Earned
 - H. Total Interest Received
 - I. A statement of compliance with this investment policy, or notations of non-compliance.
 - J. At each calendar quarter-end a subsidiary ledger of investments will be submitted with the exception listed in 8.3K.

- K. For investments that have been placed in the Local Agency Investment Fund, in Federal Deposit Insurance Corporation-insured accounts in a bank or savings and loan association, in National Credit Union Administration insured accounts in a credit union, in a county investment pool, or in shares of beneficial interest issued by a diversified management company that invest in the securities and obligations as authorized by this investment policy and the Code, the most recent statement received from these institutions may be used in lieu of the information required in 8.3.
- L. At each calendar quarter-end the report shall include a statement of the ability to meet expenditure requirements for the next six months.

8.4 Internal and external investment managers shall monitor investments and market conditions and report on a regular and timely basis to the Deputy Executive Director.

- A. Internal and external investment managers shall submit monthly reports to the Deputy Executive Director, such reports to include all of the information referenced in Section 8.3, of this investment policy. Portfolios shall be marked-to-market monthly and the comparison between historical cost (or book value) and market value shall be reported as part of this monthly report.
- B. Internal and external investment managers shall monitor the ratings of all investments in their portfolios on a continuous basis and report all credit downgrades of portfolio securities to the Deputy Executive Director in writing within 24 hours of the event. If an existing investment's rating drops below the minimum allowed for new investments made pursuant to this investment policy, the investment manager shall also make a written recommendation to the Deputy Executive Director as to whether this security should be held or sold.
- C. External and internal investment managers shall immediately inform the Deputy Executive Director, and/or the Executive Director in writing of any major adverse market condition changes and/or major portfolio changes. The Executive Director shall immediately inform the Board in writing of any such changes.
- D. External investment managers shall notify Access internal managers daily of all trades promptly, via fax or via email.
- E. Internal investment managers will maintain a file of all trades.

9.0 Portfolio Guidelines

Portfolio Guidelines are the operating procedures used to implement this investment policy approved by the Board. The Deputy Executive Director may impose additional requirements or constraints within the parameters set by this investment policy.

10.0 Internal Control

- 10.1 The Deputy Executive Director shall establish a system of internal controls designed to prevent losses of public funds arising from fraud, employee or third party error, misrepresentation of third parties, unanticipated changes in financial markets, or imprudent actions by employees or agents. Such internal controls shall be approved by the Deputy Executive Director and the Executive Director and shall include authorizations and procedures for investment transactions, custody/safekeeping transactions, opening and closing accounts, wire transfers, and clearly delineate reporting responsibilities.
- 10.2 Access officials with signature authority shall be bonded to protect against possible embezzlement and malfeasance.
- 10.3 Electronic transfer of funds shall be executed upon the authorization via the ERP system.
- 10.4 Transaction authority shall be separated from accounting and record keeping responsibilities.
- 10.5 All investment accounts shall be reconciled monthly. Discrepancies shall be brought to the attention of the Deputy Executive Director, and if not resolved promptly, to the Executive Director.
- 10.6 The Deputy Executive Director is responsible for the preparation of the cash flow model. The cash flow model shall be updated monthly based upon the actual and projected cash flow.

11.0 Purchasing Guidelines

- 11.1 Investment managers shall purchase and sell securities at the price and execution that is most beneficial to Access. The liquidity requirements shall be analyzed and an interest rate analysis shall be conducted to determine the optimal investment maturities prior to requesting bids or offers. Investments shall be purchased and sold through a competitive bid/offer process. Bids/offers for securities of comparable maturity, credit and liquidity shall be received from at least three financial institutions, if possible.
- 11.2 Such competitive bids/offers shall be documented on the investment managers' trade documentation. Supporting documentation from the Wall Street Journal, Bloomberg or other financial information system shall be filed with the trade documentation as evidence of general market prices when the purchase or sale was effected.

12.0 Benchmarks

Internal and external investment managers' performance shall be evaluated against the following agreed upon benchmarks. If the investment manager does not meet its benchmark over a market cycle (3 to 5 years), the Deputy Executive Director shall determine and set forth in writing reasons why it is in the best interests of Access to replace or retain the investment manager.

Portfolio
Short Duration Portfolios

Investment Benchmark
CDARS

Access Services Section 5.1A

Statement of Investment Policy ^a

* The percentage of portfolio authorized is based on market value.

Investment Type	Maximum Maturity	Maximum Allowable Percentage of Portfolio *	Minimum Quality and Other Requirements
U.S. Treasury notes, bonds, bills or certificates of indebtedness or those for which the full faith and credit of the United States are pledged for payment of principal and interest	2 year ^b	100%	None
Registered state warrants or treasury notes or bonds of the other 49 states in addition to California.	2 year ^b	25%	Such obligations must be rated "A1" or better short term; or "AA" or better long term, by a nationally recognized statistical rating organization
Bonds, notes, warrants, or other evidences of indebtedness of any local agency within the State of California	2 year ^b	25%	Such obligations must be rated "A1" or better short term; or "AA" or better long term, by a nationally recognized statistical rating organization
Federal Agency or United States government-sponsored enterprise obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises	2 years ^b	50% ^d	See Footnote d

Bills of exchanges or time drafts drawn on and accepted by a commercial bank, otherwise known as bankers' acceptances	180 days	40% ^c	The issuer's short-term debt must have the highest letter and numerical rating as provided for by a nationally recognized statistical rating organization
Commercial paper or "A" quality of the highest ranking or of the highest letter and numerical rating as provided for by a nationally recognized statistical rating organization	270 days	25% ^c	See Footnote e
Negotiable certificates of deposits issued by a nationally or state-chartered bank or a state or federal savings and loan association, a state or federal credit union, or by a state licensed branch of a foreign bank, or a federally licensed branch of a foreign bank. Deposits may be placed through a private sector entity that assists in placement of deposits.	1 years ^b	30% ^c	See Footnotes f and g
Investments in repurchase agreements	N/A	0%	Not allowed
United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation or Inter-American Development Bank.	N/A	0% ^c	Not allowed.
Medium-term notes issued by corporations organized and operating within the United States, or by depository institutions licensed by the United States or any state and operating within the United States	N/A	0% ^c	Not allowed.
Shares of beneficial interest issued by diversified management companies that are money market funds registered with the Securities and Exchange Commission, as authorized by Code Section 53601	N/A	0% ^c	Not allowed.

State of California Local Agency Investment fund (LAIF) Code Section 16429.1 through 16429.4 or other Local Government Investment Pool (LGIP) established by public California entities pursuant to Section 53684	Not applicable	Set by LAIF and LGIP	See Footnote h
Asset-backed Securities	N/A	0%	Not allowed.
Mortgage-backed Securities	N/A	0%	Not allowed.

Access Services Statement of Investment Policy

Footnotes for Section 5.1A Statement of Investment Policy	
a	Sources: California Government Code Sections 16429.1, 53601, 53601.8, 53635 and 53638
b	Maximum maturity of one (1) year unless a longer maturity is approved by Board of Directors, either specifically or as part of an investment program, at least three (3) months prior to the purchase. New issue securities with a stated 1 year maturity can be purchased in the primary market with extended settlements of up to 30 days from the date of purchase.
c	Limited to no more than 10% of the portfolio in any one issue (i.e. bankers' acceptances, commercial paper, negotiable certificates of deposit, medium-term notes, and money market funds)
d	No more than 15% of portfolio in any one Federal Agency or government-sponsored issue
e	Eligible paper is further limited to 10% of the outstanding paper of an issuing corporation, the issuing corporation must be organized and operating within the United States and having total assets in excess of \$500,000,000 and have an "A" or higher rating for the issuer's debentures, other than commercial paper, if any, as provided for by a nationally recognized statistical rating organization. Issuing corporations that are organized and operating within the United States and have total assets in excess of \$500 million dollars and having an "A" or higher rating for the issuer's debentures, other than commercial paper, if any, as provided by a nationally recognized statistical rating organization
f	The legislative body of the local agency, the Controller or other official of the local agency having custody of the money are prohibited from investing in negotiable certificates of deposit of a state or federal credit union if a member of the legislative body or any other specified city officer or employee also serves on the board of directors or certain committees of that credit union
g	Investments in placement services assisted deposits is authorized under Sections 53601.8, 53635.8, and 53601 (i) of the California Government Code and shall when combined with Section 53601 (i) not exceed 30% of the portfolio.
h	Maximum investment per individual pool limited to the amount for LAIF as set by the State Controller's Office. Limit does not include funds required by law, ordinance, or statute to be invested in pool. Each pool must be evaluated and approved by the Deputy Executive Director, as to credit worthiness, security, and conformity to state and local laws. An evaluation should cover, but is not limited to establishing, a description of who may invest in the program, how often, what size deposit and withdrawal; the pool's eligible investment securities, obtaining a written statement of investment policy and objectives, a description of interest calculations and how it is distributed; how gains and losses are treated; a description of how the securities are safeguarded and how often the securities are priced and the program audited. A schedule for receiving statements and portfolio listings. A fee schedule, when and how fees are assessed.

APPENDIX A

ACCESS SERVICES

CERTIFICATION OF UNDERSTANDING

Access Services (Access) Investment Policy as approved by the Board of Directors requires that all Financial Institutions and Investment Managers' conducting investment transactions with or for Access sign a Certification of Understanding acknowledging that:

1. *You have read and are familiar with Access's Investment Policy as well as applicable Federal and State laws.*
2. *You meet the requirements as outlined in Investment Policy.*
3. *You agree to make every reasonable effort to protect the assets from loss.*
4. *You agree to notify Access in writing of any potential conflicts of interest.*
5. *You agree to notify Access in writing of any changes in personnel with decision-making authority over funds within 24 hours of such event.*

Failure to submit a Certification of Understanding shall result in the withdrawal of all funds held by the financial institution or investment manager and the immediate revocation of any rights to act as an agent of Access for the purchase of securities or investment of funds on behalf of Access.

SIGNED: _____ DATE: _____

Print Name and Title _____

Please return to:

Access Services
Finance Department
Attention: Deputy Executive Director
P.O. Box 5728
El Monte, CA 91734

For Access use only:

Approved: _____ Disapproved: _____ Date: _____

Signature: _____

Access Deputy Executive Director

1. Is your Firm owned by a Holding Company? If so, what is its name and net capitalization?

2. Please provide your Wiring and Delivery Instructions.

3. Which of the following instruments are offered regularly by your local desk?

T-Bills Treasury Notes/Bonds Discount Notes
NCD's Agencies (specify) _____
 BA's (Domestic) BA's (Foreign) Commercial
Paper Med-Term Notes
Repurchase Agreements

4. Does your Firm specialize in any of the instruments listed above?

5. Please identify your comparable government agency clients in Access's geographical area.

<u>Entity</u>	<u>Contact Person</u>	<u>Telephone No.</u>	<u>Client Since</u>
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_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

6. What reports, confirmations, and other documentation would Access receive? Please include samples of research reports or market information that your firm regularly provides to government agency clients.

7. What precautions are taken by your Firm to protect the interests of the public when dealing with government agencies as investors?

8. Have you or your Firm been censored, sanctioned or disciplined by a Regulatory State or Federal Agency for improper or fraudulent activities, related to the sale of securities within the past five years? YES NO

9. If yes, please explain

10. Please provide your most recent audited financial statements within 120 days of your fiscal year- end.

11. Please indicate the current licenses of Access representatives:

Agent: _____ License or registration: _____

APPENDIX D

ACCESS SERVICES

INVESTMENT POLICY GLOSSARY

ASKED: The price at which securities are offered from a seller.

BANKERS' ACCEPTANCE (BA): Time drafts which a bank "accepts" as its financial responsibility as part of a trade finance process. These short-term notes are sold at a discount, and are obligations of the drawer (or issuer - the bank's trade finance client) as well as the bank. Once accepted, the bank is irrevocably obligated to pay the BA upon maturity if the drawer does not.

BID: The price offered by a buyer of securities.

BOOK VALUE: The original cost of the investment, plus accrued interest and amortization of any premium or discount.

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 (marketable or transferable).

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 moneys.

COMMERCIAL PAPER (CP): Unsecured promissory notes issued by companies and government entities at a discount. Commercial paper is negotiable, although it is typically held to maturity. The maximum maturity is 270 days, with most CP issued for terms of less than 30 days.

CUSTODY or 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.

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: Delivery of securities with a simultaneous exchange of money for the securities.

FEDERAL AGENCIES AND U.S. GOVERNMENT SPONSORED ENTERPRISES (AGENCIES): U.S.

Government related organizations, the largest of which are government financial intermediaries assisting specific credit markets (housing, agriculture). They include:

- ◆ Federal Home Loan Banks (FHLB)
- ◆ Federal Home Loan Mortgage Corporation (FHLMC or “Freddie Mac”)
- ◆ Federal National Mortgage Association (FNMA or “Fannie Mae”)
- ◆ Federal Farm Credit Banks (FFCB)
- ◆ Tennessee Valley Authority (TVA)

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 establish each party’s rights in the transactions. A master agreement will 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.

MEDIUM TERM NOTES (MTN): Interest bearing, continuously offered debt, issued in the 9 month to ten year maturity range. Deposit notes, like Certificates of Deposit, actually represent an interest bearing deposit at a bank or other depository institution.

OFFER: The price asked by a seller of securities.

PAR VALUE: The face value, or principal amount payable at maturity.

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.

REPURCHASE AGREEMENT (RP OR REPO): A purchase of securities under a simultaneous agreement to sell these securities back at a fixed price on some future date. This is in essence a collateralized investment, whereby the security “buyer” in effect lends the “seller” money for the period of the agreement, and the difference between the purchase price and sale price determining the earnings. Dealers use RP extensively to finance their positions.

SECURITIES & EXCHANGE COMMISSION (SEC): An 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 NOTES AND BONDS: Long-term U.S. Treasury securities having initial maturities of 2 to 30 years.

YIELD: The rate of annual income return on an investment, expressed as a percentage.

YIELD TO MATURITY (YTM): The rate of return earned on an investment considering all cash flows and timing factors: interest earnings, discounts, and premiums above par.