CITY OF
REXBURG
America's Family Community

RESOLUTION 2015-09

This resolution replaces any prior resolutions regarding an investment policy for the City of Rexburg.

INVESTMENT POLICY

1. Purpose

The purpose of this document is to provide guidelines for the prudent investment of public funds in a manner which maximizes security and provides maximum return in preserving and protecting funds while meeting the daily cash flow demands and conforming to all applicable federal, state and/or local statutes governing the investment of public funds.

The Treasurer should invest idle public funds in a manner that recognizes that safety of principal is the top priority. The second priority is liquidity. It is the duty of the Treasurer to maintain an adequate percentage of the portfolio in short-term securities, which can be converted to cash if necessary to meet disbursement requirements. A high yield on investments ranks third in priority in the City's investment strategy. Yield should be considered only after the basic requirements of safety and liquidity have been met.

2. Standards of Care

A. Prudence – The standard of prudence to be used should be the "prudent person" standard and should be applied in the context of managing an overall portfolio. Individuals acting in accordance with written procedures and this investment policy and exercising due diligence should be relieved of personal responsibility for an individual security's credit risk or market price changes. The "prudent person" standard states "Investments should 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."

B. Ethics and Conflicts of Interest – Employees involved in the investment process should refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Employees should disclose any material interests in financial institutions with which they conduct business. They should further disclose any personal financial or investment positions that could be related to the performance of the investment portfolio. Treasury personnel should act in strict accordance with Federal and State laws, City ordinances, and policies governing ethics and conflicts of interests.

C. Delegation of Authority – Authority to manage the investment portfolio is granted to the City Treasurer, who should act in accordance with established procedures and internal controls for the operation of the investment portfolio consistent with this investment policy and may engage the Deputy Treasurer or other staff or contracted persons in performing his or her duties. No person may engage in an investment transaction except as provided under the terms of this policy. The Treasurer should be responsible for all transactions undertaken and should establish a system of controls to regulate the activities of subordinate officials.

D. Investment Training- the Treasurer should be familiar with Federal, State, and local laws for governmental entities and investments to ensure compliance of investment programs through authorized financial advisors. It is recommended that at least annually the Treasurer should attend a training session sponsored by a professional organization, such as, but not limited to: Government Finance Officers Association (GFOA), Idaho City Clerks, Treasurers, and Finance Officers Association (ICCTFOA), or the Association of Public Treasurers of the United States or Canada (APT). Training should include some or all of the following components: investment controls, security risks, strategy risks, market risks, and compliance with Federal, State and local laws. The same training opportunities should also be provided to those staff members that have been delegated investment responsibilities as authorized by the City Treasurer.

3. Investment Objectives

The City should invest idle funds based on the following objectives:

A. Safety – The primary objective is the preservation of capital (safety of principal) and the safeguarding of public funds by mitigating credit and interest rate risk.

1. Credit Risk – The City should minimize credit risk, which is the risk of loss due to the failure of the security issuer or backer by:
    - i. Limiting investments to the safest types of securities;
    - ii. Utilizing financial institutions, brokers/dealers, and advisors to those that are authorized and prequalified as set forth in the Investment Depositories/Institutions and Authorized Financial Dealers Section below.
    - iii. Diversifying the investment portfolio through pooling with other governmental agencies or diversification by security and institution
    - iv. All cash and time deposits should be either insured by the FDIC, insured by the National Credit Union Administration (NCUA) Share Insurance Fund, or be fully collateralized. The City Treasurer and designated staff should make every effort to make sure that cash deposited in savings and checking accounts at one institution do not exceed the FDIC or NCUA limits.
    - v. The City should not accept, as depository collateral, any security that is not specifically allowed to be held as a direct investment by the City portfolio.

2. Interest Rate Risk – The City should minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in the market interest rates by:

i. Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations and capital projects, thereby avoiding the need to sell securities on the open market prior to maturity.

B. Liquidity – The portfolio should remain liquid to meet all operating requirements that may be reasonably anticipated by:

1. Structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands.
2. Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist of securities with active secondary or resale markets, or alternatively, a portion of the portfolio may be placed in money market mutual funds or government investment pools which offer same or next-day liquidity for short-term funds.

C. Yield – The investment portfolio should be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. The City's general approach is to buy investments with the intention of holding the investment to maturity.

1. The benchmark to be used shall be the State of Idaho Local Government Investment Pool annual rate of return for short term investments under 3 years. The benchmark to be used for investments of 3 or more years shall be the State of Idaho Diversified Bond Fund.
2. Return on investment is of secondary importance compared to the safety and liquidity objectives.
3. The core of investments should be limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed.
4. Securities should not be sold prior to maturity with the following exceptions:
   i. An investment swap would improve the quality, yield, or target duration in the portfolio.
   ii. A security with declining credit may be sold early to minimize principle loss.
   iii. Liquidity needs of the portfolio require the security to be sold.
   iv. Direction from the City Council.

4. Scope

This policy applies to the investment of all funds including but not limited to General Fund, Capital Projects, Debt Service Fund, Enterprise Funds, Internal Service Funds and Special Revenue Funds. Funds that fall outside the scope of this policy include retirement funds and certain bond issues.

A. Pooling of Funds

The City should consolidate (pool) cash and reserve balances from all funds, except for those legally restricted by statutes, to maximize investment earnings and to increase efficiencies with regard to investment pricing, safekeeping and administration. Investment income should be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

5. Suitable and Authorized Investments

A) The Treasurer and/or those assigned by the Treasurer should invest money only in those investment instruments allowed by Idaho Code 50-1013. Legal investments for the city are as follows:

1. Revenue bonds issued by the revenue bond act.
2. City coupon bonds provided for under section 50-1019, Idaho Code.

3. Local improvement district bonds provided for under chapter 17, title 50, Idaho Code.
4. Time deposit accounts with public depositories.
5. Bonds, treasury bills, interest-bearing notes, or other obligations of the United States, or those for which the faith and credit of the United States are pledged for the payment of principal and interest.
6. General obligation bonds of this state, or those for which the faith and credit of this state are pledged for the payment of principal and interest.
7. General obligation bonds of any county, city, metropolitan water district, municipal utility district, school district or other taxing district of this state.
8. Notes, bonds, debentures, or other similar obligations issued by the farm credit system or institutions forming a part thereof under the farm credit act of 1971 (12 U.S.C. sections 2001-2259) and all acts of congress amendatory thereof or supplementary thereto; in bonds or debentures of the federal home loan bank board established under the federal home loan bank act (12 U.S.C. sections 1421-1449); in bonds, debentures and other obligations of the federal national mortgage association established under the national housing act (12 U.S.C. sections 1701-1750g) as amended, and in the bonds of any federal home loan bank established under said act and in other obligations of agencies and instrumentalities of the government of the state of Idaho or of the United States.
9. Bonds, notes or other similar obligations issued by public corporations of the State of Idaho including, but not limited to, the Idaho State Building Authority, the Idaho Housing Authority and the Idaho Water Resource Board, but such investment should not extend beyond seven (7) days.
10. Repurchase agreements and reverse repurchase agreements covered by any legal investment for the State of Idaho or as otherwise allowed by this section, provided that reverse repurchase agreements should only be used for the purpose of liquidity and not for leverage or speculation.
11. Tax anticipation bonds or notes, income and revenue anticipation bonds or notes and registered warrants of the State of Idaho or of taxing districts of the State of Idaho.
12. Savings accounts including, but not limited to, accounts on which interest or dividends are paid and upon which negotiable orders of withdrawal may be drawn, and similar transaction accounts.
13. Time deposit accounts and other savings accounts of state or federal savings and loan associations located within the geographical boundaries of the state in amounts not to exceed the insurance provided by the federal savings and loan corporation, including, but not limited to, accounts on which interest or dividends are paid and upon which negotiable orders of withdrawal may be drawn, and similar transaction accounts.
14. Share, savings and deposit accounts of state and federal credit unions located within the geographical boundaries of the state in amounts not to exceed the insurance provided by the national credit union share insurance fund and/or any other authorized share guaranty corporation, including, but not limited to, accounts on which interest or dividends are paid and upon which negotiable orders of withdrawal may be drawn, and similar transaction accounts.
15. Prime banker's acceptances.
16. Prime commercial paper.
17. Money market funds, mutual funds, or any other similar funds whose portfolios consist of any allowed investment as specified in this section.

18. Bonds, debentures or notes of any corporation organized, controlled and operating within the United States which have, at the time of their purchase, an A rating or higher by a commonly known rating service.

B) The above state statute is understood to include:

1. Certificate of Deposit Account Registry Service (CDARS) through a bank with offices in Idaho
2. State of Idaho Local Government Investment Pool
3. State of Idaho Diversified Bond Fund

C) Collateralization

These two types of investments are required to have collateral; any deviation should have City Council approval:

1. Certificates of deposits over the FDIC or NCUA insured limit.
2. Repurchase agreements. Reverse repurchase agreement investments should have City Council approval.

The Treasurer and/or those assigned by the Treasurer should make every effort to make sure that any amounts in excess of the maximum Federal Depository Insurance Corporation (FDIC) or National Credit Union Administration (NCUA) insurance coverage are collateralized or kept to a minimum. In some cases, this amount may be exceeded when we have checks outstanding that have not been cashed, which causes our balance to remain over the limits of FDIC or NCUA.

The collateral should typically consist only of the following securities: U.S. Treasury Bills, U.S. Treasury Notes, U.S. Treasury Bonds, federal agency securities, and/or the government-guaranteed portion of certain government securities. Collateral should be marked to market on the day of the transaction or otherwise protected against price deterioration with over-collateralization of a minimum of 105%. Collateral should always be held by an independent third party with whom the City has a current custodial agreement. A clearly marked evidence of ownership and safekeeping receipt should be supplied to the City and retained by the Treasurer.

6. Portfolio Parameters

A) Maximum Exposure Guidelines Portfolio Diversification

Risk of principal loss in the portfolio as a whole should be minimized by diversifying investment types according to the following limitations: Investment Type: % of Portfolio

1. U.S. Treasury Notes/Bonds/Bills 100%

2. U.S. Agencies 60%

3. Local Government Investment Pools 60%

4. Certificates of Deposit 40%

5. Municipal/State of Idaho Bonds 60%

6. Money Market Mutual Funds 20%

7. No more than 10% of the overall portfolio may be invested in the securities of a single issuer, except for the securities of the U.S. Government, or a maximum of 50% with any individual counter party in an external investment pool.

8. All other investment types included in section 5 25%

B) Competitive Bids
It is prudent for the investment officer to obtain bids from at least two brokers or financial institutions on all purchases of investment instruments purchased on the secondary market. Securities bids should, at the minimum, include the following information:

1. Issue Principal

2. Coupon Accrued Interest

3. Maturity Total Cost

4. Price Yield to Maturity (365 day)

C) Maximum Maturities
To the extent possible, the City should match its investments with anticipated cash flow requirements. The City should not directly invest in securities with a maturity longer than 5 years unless matched to a specific project or with an exemption by the City Council. Local Improvement Districts, which are typically 10 years, may be invested in at the discretion of the City Treasurer if investment funds are available and should not impede the city's ability to meet their cash flow needs.

7. Safekeeping and Custody
Securities should be held by an independent third party custodian selected by the City as evidenced by safekeeping receipts in the City's name in order to minimize custodial credit risk.

The City's ownership of all securities in which the fund is invested should be evidenced by written acknowledgments identifying the securities by:

1. The names of issuers,
2. The maturity dates,
3. The interest rates,
4. Any serial numbers or CUSIPs.

The City should not invest in securities that are both uninsured and not registered in the name of the City. The City should not accept, as depository collateral, any security that is not specifically allowed to be held as a direct investment by the City portfolio.

8. Investment Depositories/Institutions and Authorized Financial Dealers
The Treasurer should maintain a list of financial institutions (Attachment A) authorized to provide investment services and approved security brokers/dealers, selected by creditworthiness that are authorized and registered with the State of Idaho Department of Finance to provide investment services in the State of Idaho. These may include "primary" dealers or regional dealers that qualify under Securities & Exchange Commission Rule 15C3-1. No public deposit should be made except in a

qualified public depository as authorized by laws of the State of Idaho. The Treasurer is authorized to purchase certificates of deposits under (or equal to) the FDIC or NCUA limits from any of the local banks or credit unions within the City, which should be included in the list of authorized financial institutions. Dual authorization to make changes to such certificates of deposits or accounts should be set up at the respective financial institutions where the City decides to invest. In order to open new accounts at financial institutions, the Treasurer will be required to sign as the authorized member agent, along with additional members, which typically include the Mayor, a council member, or the City Clerk. A minimum of 3 authorized members will be required to open an account.

A. All investment advisors, broker/dealers and financial institutions who desire to become qualified for investment transactions shall supply the following as appropriate:

1. Proof of National Association of Security Dealers (NASD)certification or Securities and Exchange (SEC) registration

2. Proof of state registration

3. Certification of having read and understood and agreeing to comply with the City's investment policy (Attachment B).

B. The Treasurer reserves the right to remove advisors, brokers/dealers and/or financial institutions from the authorized list to undertake investment transactions with the City.

C. The Treasurer, with the assistance of the Investment Committee, shall select those advisors, brokers/dealers, and/or financial institutions that may be utilized in the City's investment portfolio. The following factors may be used to determine this selection, but ultimately the decision lies with the Treasurer and/or Investment Committee:

1. Feedback from references of such advisors, brokers/dealers, or financial institutions.

2. Efficiency in the management of investments with such advisors, brokers/dealers, or financial institutions.

3. Costs associated with the services provided.

9. Investment Earnings

Interest earnings and accruals should be credited to the source of the invested funds based on the average daily cash balances during the investment period. Such credit should typically be posted at the end of each month, but may vary depending on the investment instrument.

10. Investment Committee

An Investment Committee that is comprised of the membership of the Administrative Advisory Committee of the City Council shall be established to determine investment guidelines, general strategies, and monitor performance. In order to maintain continuity on this committee, if that committee is made up of members of the council that are all on the same re-election schedule, the Mayor may appoint a different member to be on this committee. The Treasurer is also a member of the investment committee. The Committee should normally meet annually to review performance, strategy, and procedures, but may meet more often as the City Treasurer or City Council requests. The Investment Committee should include in its deliberation, but not limited to, such topics as: performance reports, economic outlook, portfolio diversification, maturity structure, potential risk to the City funds, authorized brokers and dealers, and the target rate of return on the investment portfolio. This investment policy should be reviewed annually by the Investment Committee and any modifications to the policy should be presented to the governing body for formal review and approval.

11. Reporting and Review

A report of the City's investment portfolio should be included in the financial report to the City Council at the end of each fiscal quarter and should provide a clear picture of the current investment portfolio. This report should provide a percentage of the portfolio represented by each investment category. This report should also indicate any desires to change investment types or concentrations. A list of the investments may also be provided and should include:

a. date of purchase,
b. date of maturity,
c. type of investment,
d. firm invested at,
e. yield,
f. interest rate, and
g. comparison to the benchmark set forth in this policy.

12. Internal Controls

The City Treasurer should establish and maintain a system of internal controls, which should be reviewed with the independent auditor of the City. The controls should be designed to prevent the loss of public funds arising from fraud, employee error, and misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the City. The internal controls shall address the following points:

A. Control of collusion

1. All purchases of investments must be transacted in accordance with the City Council approved investment policy.
2. All replacement investments, such as replacing a CD that has matured with another CD of the same investment timespan with the same institution can be initiated by one authorized individual.
3. All non-replacement investments, such as with a new institution or using an instrument not previously used with that institution, should be authorized by the City Treasurer before the transaction is consummated.

B. Segregation of duties and delegation of authority

1. The City Treasurer:
   i. Can initiate any authorized investment in accordance with the City Council approved investment policy.
   ii. Should approve all non-Replacement Investments.

    iii. Should review a monthly report, provided by the Deputy Treasurer, of all cash balances and investment transactions and balances, and tie out the report to the general ledger and institutional reports.
    iv. Should review the investment log at least monthly.
    v. Should be aware of dramatic market changes.

2. The Deputy Treasurer:
    i. Can initiate all investments after obtaining proper authorization from the City Treasurer, or the Mayor or a member of the Investment Committee.
    ii. Can initiate any authorized Replacement Investment as defined in the approved Investment Policy without other authorization from another city officer, as long as there have not been dramatic market changes since the time of the original investment.
    iii. Should provide a monthly report of all investment transactions and balances, including cash balances, to the City Treasurer.
    iv. Should maintain a log of all transactions that includes the following:
        1. Purchase Date
        2. Sale Date
        3. Person initiating the transaction
        4. Employee of the institution who consummated the transaction
        5. Name of the institution where the investment resides
        6. CUSIP or other transaction number used by the institution
        7. Interest Rate (Yield to Maturity)
        8. Amount of the transaction
        9. Coupon or Premium
        10. Type of investment
        11. Maturity date of the investment
        12. Callable Date
        13. Call Frequency

3. The Investment Committee
    i. Should review annually or as requested, a report of all investment transactions and balances, including cash balances as provided by the City Treasurer or Deputy Treasurer.
    ii. Should annually review and update the Investment Policy.

C. Procedures to consummate a purchase or sale of a security
    1. The City Treasurer or Deputy Treasurer should:
        i. Ensure that the investment contemplated complies with the most recently approved Investment Policy.
        ii. Obtain the necessary written (includes email) authorization as required above.

iii. Confirm the terms of the investment through written confirmation with the financial institution.
iv. Transact the investment through the City's checking account with the proper signatures on a check or proper authorization of a wire transfer.
v. Obtain written confirmation of each investment transaction, including wire transfer transactions, noting the individual's name and phone number who processed the transaction for the institution.
vi. Enter the transaction in the investment log.

13. Exemption
Any investment currently held that does not meet the guidelines of this policy shall be exempted from the requirement of this policy. Upon maturity, if funds are re-invested the new securities should conform to this policy.

14. Review and Approval
The investment policy shall be formally approved and adopted by the City Council by resolution, and any future changes to the policy must be approved by the City Council.

Approval by the City Council the 19th Day of August, 2015.

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Richard S. Woodland, Mayor Date

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Matthew K. Nielson, City Treasurer Date

INVESTMENT GLOSSARY

AGENCIES: Federal agency securities and/or government-sponsored enterprises.

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.

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 of 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 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 member 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 in 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 and guarantees that all security holders will receive timely payment of principal and interest.

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 about 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 or FmHA mortgages. The term "pass-through's" 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 agreement 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.

NATIONAL CREDIT UNION ADMINISTRATION (NCUA): A government agency that insures credit union deposits, currently up to $250,000 per deposit. This is similar to the FDIC for banks.

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

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. In some states the law requires that a fiduciary, such as a trustee, may invest money only in a list of securities selected by the custody state the so-called legal list. In other states 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.

REPLACEMENT INVESTMENT: Any investment that is replacing a previous investment that has matured. It must have identical terms as the one maturing, except for the starting date and rate of 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 & EXCHANGE COMMISSION: Agency created by Congress to protect investors in securities transactions by administering securities legislation.

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

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 for the security. (b) NET YIELD or YIELD TO MATURITY is the current income yield minus any premium above par or plus any discount from par in purchase price, with the adjustment spread over the period from the date of purchase to the date of maturity of the bond.